

**REPORT ON THE
UNITED STATES COURT OF APPEALS FOR
THE FEDERAL CIRCUIT**

**Section of Antitrust Law
American Bar Association
July, 2002**

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PREFACE

As chair of the Section of Antitrust Law, I am pleased to offer this *Report on the United States Court of Appeals for the Federal Circuit*. The Task Force has produced an even-handed discussion of the role of the Federal Circuit, a topic that often engenders controversy. The *Report* is not offered in support of any position. It is offered in the belief, which was endorsed by the Council of the Section of Antitrust Law, that a publication of this type will increase the knowledge of all those interested in the Federal Circuit and its antitrust rulings.

The *Report* details the formation of the Federal Circuit and Congress' vision for that court, traces the reach of the court's appellate jurisdiction through the Supreme Court's June 2002 decision in *Holmes v. Vornado*, and identifies the key areas where the Federal Circuit has developed its own law rather than follow the law of the regional circuits.

The Federal Circuit stands at an important place near the crossroads of antitrust law and intellectual property law. This comprehensive history will provide a reference source for all participants in the discussion over the past and future role of the Federal Circuit.

The Section is indebted to the members of the Task Force for their many hours of hard work. To George Gordon, who chaired the Task Force, James Kobak, Suzanne Michel, Harvey Saferstein, and Scott Stempel, who served on the Task Force, Will Tom, who reviewed the Task Force's report, and Howard Morse, the Chair of the Intellectual Property Committee, who formed the Task Force and shepherded the Task Force's report from beginning to end, the Section expresses its appreciation.

Roxane C. Busey
Chair, 2001-2002

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Introduction and Summary Overview¹

Few areas of antitrust law have sparked as much intense debate as the interface between antitrust and intellectual property. Among the areas of current controversy are the conditions under which intellectual property holders may refuse to license rivals, the terms under which parties may settle patent infringement litigation and how intellectual property assets should be treated in the context of merger analysis. These and other intellectual property-antitrust issues are merely the most recent manifestations of a long-standing debate on the appropriate relationship between these two areas of law. At one end of the spectrum is a view that antitrust rules should never interfere with the ability of intellectual property owners to do what they want with their property. At the other end is a view that antitrust law should be employed to circumscribe the scope of an inherently anticompetitive bundle of rights. Most courts, commentators and practitioners fall somewhere along a spectrum between these two extremes. Indeed, the more recent trend in the courts, and at the agencies, is to treat intellectual property as similar to other forms of property and not view it as conferring a monopoly or any special privileges under the antitrust laws.

The Court of Appeals for the Federal Circuit (“CAFC” or “Federal Circuit”) has become an important participant in this long-running intellectual property-antitrust debate. The Federal Circuit’s importance in this area of the law has increased significantly as a result of the court’s recent jurisprudence on its own jurisdiction and choice of law rules. The Intellectual Property Committee of the ABA’s Antitrust Section established a Task Force to study the consequences of these developments in Federal Circuit law for antitrust law. When Federal Trade Commission

¹ The Task Force wishes to acknowledge the invaluable contributions of Alison Donahue Kehner, Hima Mallampati and Noel Paladin-Tripp in preparing this Report.

Chairman Timothy J. Muris identified the “Federal Circuit’s substantive impact on competition law” as one of the topics that the Federal Trade Commission and the Department of Justice would consider during the agencies’ hearings on intellectual property - antitrust issues,² the Task Force began to prepare this Report for submission in connection the hearings. Our hope is that the Report will contribute to the agencies’ efforts to assess the significance and consequences of the Federal Circuit’s increasing role in shaping antitrust law.

The idea behind the Task Force’s study of the role of the Federal Circuit in developing antitrust law was sparked in large part by a statement in the amicus curiae brief of the United States opposing certiorari in *CSU, LLC v. Xerox Corp.*, 203 F.3d 1322 (Fed.Cir. 2000), suggesting that “the Court allow the[] difficult issues [in that case] to percolate further in the Courts of Appeals.” There was a perception among some observers that -- given the Federal Circuit’s expanding view with respect to its own jurisdiction -- regional courts of appeals might never consider the patent-antitrust issues raised in *CSU* and other cases. That is, rather than percolate in the various courts of appeals, future cases would likely all be heard by the Federal Circuit. Given the limited number of cases that the Supreme Court reviews, particularly with the absence of a circuit court split, instead, the Federal Circuit may be as a practical matter the court of last resort and may set antitrust policy at the antitrust-intellectual property interface. Indeed, to date, the Supreme Court has reviewed no Federal Circuit decisions involving antitrust issues, highlighting the Federal Circuit’s importance in developing antitrust law.

During the course of the Task Force’s work, the Supreme Court granted certiorari and addressed the scope of the Federal Circuit’s jurisdiction in *Holmes Group, Inc. v. Vornado Air Circulation Sys. Inc.*, 122 S. Ct. 1889 (2002) . In *Holmes*, the Court held that the Federal Circuit

² Prepared Remarks of Chairman Timothy J. Muris before the American Bar Association, Antitrust Section Fall Forum, Washington DC, November 15, 2001.

does not have jurisdiction over appeals in cases in which the patent claim is raised in a counterclaim as opposed to the complaint. While that case did not involve an antitrust claim, its effect on the Federal Circuit's role in the development of antitrust law is potentially significant. Because it is so recent, however, the effect of this holding on the Federal Circuit's role in the development of antitrust law remains to be seen.

This Report is primarily intended to educate and inform the agencies and the bar regarding the development of the Federal Circuit law on jurisdiction and choice of law. To that end, the Task Force Report is organized in three sections. The first section provides an overview of the history of the creation of the Federal Circuit, including the legislative history regarding Congress' intent in creating the court. The legislative history reveals that Congress intended the Federal Circuit's jurisdiction to be narrowly circumscribed, but also anticipated that, in certain circumstances, the court would consider appeals related to antitrust issues. From the legislative history, it can be argued that Congress contemplated that the Federal Circuit might have some role in shaping antitrust law -- in particular where antitrust claims are based on patent prosecution practices or certain types of licensing practices -- but that Congress also expected the court to zealously guard against the expansion of that role beyond areas implicating the development of patent law.

The second section summarizes the current state of the law on Federal Circuit jurisdiction. It begins by examining the Supreme Court's decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), and then looks at the Federal Circuit cases related to its appellate jurisdiction over certain cases in the following circumstances: (1) where there is a patent claim combined with a non-patent claim or counterclaim; (2) where a patent claim was raised as a counterclaim in a non-patent case; (3) where patent claims were dismissed or withdrawn; (4) where patent claims and non-patent claims were separated for trial under Fed.

R. Civ. P. 41(b); and (5) where a partial final judgment under Fed. R. Civ. P. 54(b) was entered. Section II also discusses jurisdictional issues in cases involving non-patent claims that necessarily depend upon the resolution of a substantial question of patent law, such as cases involving contract disputes relating to patents and false statements regarding patent rights. The section concludes with a discussion of the Federal Circuit's jurisdiction to review orders of the Federal Trade Commission.

The third and final section explores the development of the Federal Circuit's choice of law rules in antitrust cases (and the Federal Circuit's antitrust jurisprudence) both before and after *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059, 1068 (Fed. Cir. 1998), in which the court held that it would apply its own law to "an antitrust claim premised on stripping a patentee of its immunity from the antitrust laws." In examining the pre-*Nobelpharma* cases, the Report discusses the fact that the Federal Circuit had the opportunity to "make" antitrust law long before its decision in *Nobelpharma*. In particular, it focuses on Federal Circuit cases in which there was no regional circuit law on the particular issue, and cases in which the court simply followed its own precedent rather than applied the law of the regional circuit. In addition, the section also discusses antitrust claimants' relatively poor record before the Federal Circuit and whether that record reveals an antipathy toward antitrust principles or simply the weakness of the antitrust theories involved. The third section concludes with an analysis of the Federal Circuit's treatment of antitrust issues after *Nobelpharma* and reviews a number of decisions that flesh out the court's view of antitrust law and its ability to apply its own law to key issues, including *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir. 1998), *Midwest Industries, Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir. 1999), *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000).

Whether or not one agrees with the outcome of these cases, one thing is clear: the Federal Circuit is having an impact on the development of antitrust law. That impact is the result of the combined effect of the court's expanding view of its own jurisdiction and its decision to develop a body of Federal Circuit antitrust law on patent-antitrust issues. While the Supreme Court in *Holmes* may have limited the Federal Circuit's jurisdiction, the Federal Circuit's influence on the development of antitrust law will undoubtedly continue to be significant.

Discussion

I. The Creation of the Court of Appeals for the Federal Circuit

A. The Predecessors Of The Federal Circuit

In 1982, Congress passed the Federal Courts Improvement Act (“FCIA”). Among other important changes to the federal court system, the FCIA created a new court--the United States Court of Appeals for the Federal Circuit.³ As described by the Honorable Howard T. Markey, former Chief Judge of the CAFC, the court “rose from the ashes of two former courts”--“the 127 year old United States Court of Claims and the 73 year old United States Court of Customs and Patent Appeals [CCPA].”⁴

Prior to the merger of these two courts into the CAFC, the primary responsibility of the CCPA was to decide appeals from decisions of the Patent and Trademark Office concerning applications for patents and trademark registrations.⁵ The CCPA also had jurisdiction over appeals from decisions of the Court of International Trade (formerly the Customs Court), which related primarily to actions against the federal government under the Tariff Act, and appeals from the United States International Trade Commission. The Court of Claims, in turn, primarily exercised jurisdiction over a variety of types of claims brought against the United States for

³ Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982). Additionally, the FCIA created the Claims Court from the trial division of the former Court of Claims, created modernized procedures for that court, authorized the transfer of cases and appeals between federal courts to cure jurisdictional defects, provided a uniform interest rate on judgments, and made several reforms in the administration of federal courts. *See id.*; *see also* Charles W. Adams, *The Court of Appeals for the Federal Circuit: More than a National Patent Court*, 49 Mo. L. Rev. 43, 44 (1984) (describing other aspects of FCIA).

⁴ United States Judicial Conference Committee on the Bicentennial of the Constitution of the United States, *United States Court of Appeals for the Federal Circuit: A History 1982-1990*, at 1 (1991) [hereinafter “*History of the CAFC*”].

⁵ John B. Pegram, *Should There Be a U.S. Trial Court with a Specialization in Patent Litigation?*, 82 J. Pat. & Trademark Off. Soc’y 765, 770-71 (2000).

compensation, including actions seeking compensation for use or manufacture of a patented invention by or for the United States.⁶

Although the CAFC inherited the jurisdiction of the United States Court of Claims and the CCPA, its jurisdictional grant was broader than that of its predecessor courts. As one of its new responsibilities, Congress granted the CAFC jurisdiction over appeals from final decisions of the federal district courts in patent cases where the trial court's jurisdiction "was based, in whole or in part," on 28 U.S.C. § 1338.⁷ Thus, Congress granted the newly created CAFC exclusive appellate jurisdiction over patent cases that were previously heard by the regional circuit courts of appeals.

This grant of exclusive appellate jurisdiction limited by subject matter rather than geography was, by far, the most significant and controversial aspect of the FCIA. Indeed, long before Congress created the CAFC in 1982, the idea of creating a specialized court of appeals with nationwide jurisdiction was the subject of much debate among legislators, jurists and members of the bar. As one commentator noted at the passage of the FCIA in 1982, "the idea of a single court for patent cases is far from a new idea."⁸

⁶ *Id.*; see also Lionel M. Lavenue, *Survey of Government Contract Cases in the United States Court of Appeals for the Federal Circuit: 1997 in Review*, 47 Am. U. L. Rev. 1393, 1489 n.24 (1998) (noting that Congress first created Court of Claims in 1855 to provide a forum in which a party could sue the United States on a contract claim).

⁷ 28 U.S.C. § 1295(a)(1).

⁸ Jack Q. Lever, Jr., *The New Court of Appeals for the Federal Circuit (Part I)*, J. of Patent Off. Soc'y 178, 186 (Apr. 1982).

B. The Early Thinking On A National Court Of Appeals

The CAFC's modern roots can be traced to the early 1970's,⁹ when it became apparent to many that the Supreme Court's overcrowded docket made it impossible for the Court to hear and resolve many important cases involving inter-circuit conflicts. In 1971, Chief Justice Burger appointed a study group -- the "Freund Committee" -- to consider the problems caused by the Supreme Court's growing caseload and to propose possible reform measures.¹⁰ The Committee ultimately proposed that Congress create a National Court of Appeals that would be responsible for screening all petitions for certiorari, approving certain cases for Supreme Court review, deciding certain cases involving inter-circuit conflicts, and denying review in the remainder of cases.¹¹ Among alternatives to forming a National Court of Appeals, the Committee considered but rejected creating specialized courts of appeal to eliminate congestion of the Supreme Court's docket.¹²

Although Congress ultimately did not act on the Committee's controversial recommendations, its findings sparked further interest in the problems inherent in the structure of the federal court system. In 1972, Congress created the Commission on Revision of the Appellate System (hereinafter "the Hruska Commission") and empowered it to "study the structure and internal procedures of the Federal courts of appeal system" and to issue a report to

⁹ For a recent historical overview of the Federal Circuit tracing its history back to 1887, see Paul M. Janicke, *To Be Or Not To Be: The Long Gestation Of The U.S. Court Of Appeals For The Federal Circuit (1887-1982)*, 69 *Antitrust L.J.* 645 (2002).

¹⁰ The Committee was named after its chairman, Professor Paul A. Freund of Harvard Law School. *History of the CAFC*, *supra* note 4, at 3.

¹¹ *Id.*; Federal Judicial Center, *Report of the Study Group on the Caseload of the Supreme Court*, 57 *F.R.D.* 573, 590-95, 611 (1972).

¹² Notably, the Freund Committee did not address specifically the idea of a specialized patent court. Lever, *supra* note 8, at 187, n.33.

Congress.¹³ The Hruska Commission found that the then-current structure of the federal court system and the overcrowded Supreme Court docket caused inter-circuit conflicts and virtually no opportunity to provide national uniformity in many complex areas of the law.¹⁴ It specifically noted that in the area of patent law, “the lack of definitive declaration of national law,” and the resultant forum shopping, was “particularly acute.”¹⁵ Based on the results of a survey of patent attorneys, the Commission’s patent consultants concluded:

Our collective experience over the 20 years or so each of us has been active in the field led us to believe that the lack of uniformity in decisions on patent-related issues has been a widespread and continuing fact of life. This study merely confirms our judgment that it has been and continues to be a problem. The inevitable consequence of this fact is that patent owners and alleged infringers spend inordinate amounts of time, effort and money jockeying for a post position in the right court for the right issues. . . . Patentees now scramble to get into the 5th, 6th and 7th Circuits since the courts there are not too inhospitable to patents whereas infringers scramble to get anywhere but these circuits. Such forum shopping not only increases litigation costs inordinately and decreases one’s ability to advise clients, it demeans the entire judicial process and the patent system as well.

It is our view that the principal cause of circuit-to-circuit deviations in the patent field stems from a lack of guidance and monitoring by a single court whose judgments are nationally binding. . . . The Supreme Court is simply just too busy to perform anything even resembling a monitoring function on patent-related issues.¹⁶

¹³ Pub. L. No. 92-489, 86 Stat 807, *amended by* Pub. L. No. 93-420, 88 Stat. 1153.

¹⁴ Comm’n on Revision of the Federal Court Appellate System, *Structure and Internal Procedures: Recommendation for Change*, 67 F.R.D. 195 (1975).

¹⁵ *Id.* at 220. The Commission studied other areas of the law, including antitrust, but the problems identified in the area of patent law were most acute.

¹⁶ *Id.* at 370. The Commission’s patent law consultants were Professor James B. Gambrell of New York University Law School and Donald R. Dunner, Esq., of Washington, D.C.

Ultimately, the Commission proposed that a generalized National Court of Appeals could correct the legal uncertainty created by inter-circuit conflicts and fill the void left by the Supreme Court's inaction in the "complex field" of patent law.¹⁷

The Hruska Commission also considered an alternative proposal to form a specialized court of patent appeals to eliminate the lack of uniformity in the patent law and the opportunity for forum shopping. It determined, however, that specialized courts "would not be a desirable solution either to the problems of the national law or . . . to the problems of regional court caseloads."¹⁸ The Commission noted the perceived disadvantages to forming a specialized patent court, including the lack of regional influence in complex matters, the potential for judges to become subject to "tunnel vision" because of the narrow range of cases heard, and the possibility that jurists would "impose their own views of policy even where the scope of review under the applicable law is supposed to be more limited."¹⁹ Although most disagreed with the Hruska Commission's proposal to establish another tier of federal appellate review, the report's findings raised awareness of the problems created by the lack of uniformity in the application of the patent laws.²⁰

¹⁷ *Id.* The Hruska Commission also appointed consultants to study, *inter alia*, the field of antitrust law and to report whether problems with uncertainty in that area of the law existed. The antitrust consultant reported "a consensus that uncertainty and inter-circuit conflict do not significantly affect antitrust cases as distinguished from other categories of legal controversies." *Id.* at 371.

¹⁸ *Id.* at 234.

¹⁹ *Id.* at 235. The Hruska Commission cited other downsides to forming a specialized court, including the possibility that there would be a reduced incentive to produce a thorough and persuasive opinion, the possibility that the court would lack the prestige associated with regional circuits, and the fact that the advantages of decision-making by generalist judges would diminish. *Id.*

²⁰ *See* History of the CAFC, *supra* note 4, at 4.

The next significant step toward the creation of the CAFC came in 1978, when the Justice Department issued a memorandum from the Office for the Improvements in the Administration of Justice (“OIAJ”).²¹ Drawing on the previous studies on the subject, the memorandum proposed for the first time the creation of a specialized court of appeals that would be on the same level as the regional courts of appeals by merging the Court of Claims and the CCPA.²² The memorandum proposed that the new court of appeals would retain the appellate jurisdiction of its predecessor courts, and would also exercise exclusive appellate jurisdiction in civil tax, environmental and patent cases.

It also proposed that, unlike the regional circuits, the jurisdiction of the newly created court of appeals would be limited by subject matter rather than geography. The Justice Department eventually modified its proposal to eliminate the CAFC’s exclusive jurisdiction in tax and environmental cases. In February 1979, President Carter appeared before Congress and announced his support for legislation to create the CAFC.²³

C. The Legislation And Congressional Debates

During 1979, the Senate and House of Representatives responded to the Carter Administration’s proposal and considered legislation regarding the formation of the CAFC. Senate bills S. 677 and S. 678 proposed the creation of an additional court of appeals that would

²¹ The OIAJ was created during the Carter administration by Attorney General Griffin B. Bell.

²² Adams, *supra* note 3, at 60. The OIAJ developed its proposal by considering the criticisms of the reports by the Hruska Commission and the Freund Committee. Specifically, the OIAJ’s proposal sought to, *inter alia*, avoid the creation of a fourth tier to the federal judicial system, avoid undue specialization of judges, maintain the prestige of other courts, preserve the availability of Supreme Court review, and minimize jurisdictional disputes. *Id.*

²³ *History of the CAFC*, *supra* note 4, at 5; *see also* Lever, *supra* note 8, at 192 n.42 (citing 125 Cong. Rec. H. 911, daily ed.).

exercise exclusive jurisdiction over patent and trademark appeals.²⁴ After hearing extensive testimony on the subject, the Senate Subcommittee on Courts revised the bills and reintroduced S. 1477, which was similar in most respects to S. 677 and S. 678 except that it eliminated the previous grant of exclusive jurisdiction over trademark appeals.²⁵ Similarly, members of the House of Representatives introduced H.R. 3806, which also proposed the formation of the CAFC.²⁶ While the Senate and House conference committee reached a compromise between S. 1477 and H.R. 3806, the compromise version ultimately was withdrawn because of a proposal to add an unrelated amendment to the bill.²⁷

The following year, legislators again introduced bills into the Senate and House of Representatives to establish the CAFC. The Senate Subcommittee on the Courts held extensive hearings on S. 21, which contained substantially the same provisions as S. 1477 from the previous year.²⁸ Similarly, the House Subcommittee on the Courts held hearings on the House's counterpart to S. 21, H.R. 4482.²⁹ Interested parties presented virtually the same testimony and arguments at the hearings before both houses of Congress. Additionally, many of the witnesses had offered their views in connection with previous proposed legislation and the studies performed by the Hruska Commission and the Freund Committee.

²⁴ The Judicial Improvement Act of 1979, S. 677, 96th Cong. (1979); S. 678, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 192.

²⁵ S. 1477, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 194.

²⁶ Court of Appeals for the Federal Circuit, H.R. 3806, 96th Cong. (1979); *see also* Lever, *supra* note 8, at 195.

²⁷ Lever, *supra* note 8, at 195-96 & n.51; *History of CAFC*, *supra* note 4, at 6.

²⁸ S. 21, 97th Cong. (1981).

²⁹ H.R. 4482, 97th Cong. (1981).

Testimony during the Senate and House hearings focused on the problems created by the differences between the various regional circuits' application of patent law, the risks of establishing a specialized court of appeals and, in particular, the extent to which a specialized patent court would have jurisdiction over non-patent issues, including antitrust issues. Relying extensively on the Hruska Commission report, supporters of the legislation observed that the inter-circuit conflicts greatly increased the expense of litigation because of the forum shopping that occurred.³⁰ They also noted the more fundamental concern that the lack of uniformity in the application of the patent laws impacted business planning, as patent holders could not determine with any reasonable degree of certainty the extent of their legal rights in an invention because the scope of those rights depended, in large part, on geography.³¹ By centralizing patent appeals, supporters believed that business planning would become easier "as more stable and predictable patent law is introduced."³²

Based on the evidence presented, the House Report declared that the central purpose of the legislation was "to reduce the widespread lack of uniformity and uncertainty of legal doctrine that exist in the administration of patent law."³³ Similarly, the Senate Report noted the "special need for uniformity" in the area of patent law and stated that the FCIA "provides a new forum for

³⁰ E.g., H.R. Rep. No. 97-312, at 21-22 (1981) [hereinafter "House Report"].

³¹ *Id.* In this regard, Former Secretary of Commerce Philip M. Klutznick testified that "[d]ecisions to file patent applications and to invest in commercializing inventions would be improved meaningfully as a result of the greater uniformity and reliability made possible." *Id.*; see also *History of the CAFC*, *supra* note 4 at 11 (noting that "if an inventor could not be sure that his patent rights would be respected in the marketplace, or enforced in the courts, he was deprived of important incentives to research and development").

³² House Report, *supra* note 30, at 23.

³³ *Id.* The House Report also noted the additional advantage that the CAFC would reduce the workload of the regional circuits, although "case management was not the primary goal of the legislation." *Id.*

the definitive adjudication of selected categories of cases.”³⁴ Notably, however, the Senate Report clearly indicated that the Judiciary Committee did not intend for the CAFC’s jurisdiction to extend beyond the subject matter for which it was created. The Report stated that “[t]he committee has determined that an adequate showing has been made for nationwide subject matter jurisdiction in the areas of patent and claims court appeals. It must be understood, however, that it is not the committee’s judgment that broader subject matter jurisdiction is intended for this court.”³⁵

Opponents of the legislation argued primarily that the creation of a specialized court was not an appropriate solution to the problems associated with patent litigation.³⁶ Citing the criticisms voiced in the Hruska report, many argued that: (1) judges in a specialized court would take “too limited a view toward the development of the law,” *i.e.*, develop “tunnel vision” that would decrease development of new ideas; (2) judges would impose their own views of policy; (3) there would be a reduced incentive to produce persuasive and thorough opinions; (4) regional influence would be diluted; (5) judges could be influenced more readily by special interest groups and become “pro-patent” or “anti-patent,” with limited opportunities to correct any such bias because the decision-making power would be centralized; and (6) the creation of a specialized

³⁴ S. Rep. No. 97-275 at 4 (1981), 1982 U.S.C.A.A.N. 30, 44-45 [hereinafter “Senate Report”].

³⁵ *Id.*

³⁶ *E.g., id.* at 40-41 (additional views of Senator Max Baucus on the FCIA). Opponents also questioned whether the problems of forum shopping and inter-circuit conflict were as serious as the proponents of the legislation had claimed. *E.g.*, House Report, *supra* note 30, at 147 (Dissenting Views of F. James Sensenberger) (stating that “[p]roponents of H.R. 4482 have not demonstrated persuasively that there is a serious problem with conflicts between the circuits in those areas of substantive law that would be assigned to this new court”); Lever, *supra* note 8, at 200-01.

court would “remov[e] [the] patent system from legal mainstream.”³⁷ Interestingly, echoes of this criticism can be heard in Justice Stevens’ concurrence in *Holmes*:

An occasional conflict in decisions may be useful in identifying questions that merit this Court’s attention. Moreover, occasional decisions by courts with broader jurisdiction will provide an antidote to the risk that the specialized court may develop an institutional bias.

Holmes, 122 S. Ct. at 1898.

The House Report responded to these concerns as follows:

By combining the jurisdiction of the two existing courts along with certain limited grants of new jurisdiction, the bill creates a new intermediate appellate court markedly less specialized than either of its predecessors and provides the judges of the new court with a breadth of jurisdiction that rivals in variety that of the regional courts of appeals. The proposed new court is not a “specialized court.” Its jurisdiction is not limited to one type of case, or even to two or three types of cases. Rather, it has a varied docket spanning a broad range of legal issues and types of cases. It will handle all patent appeals and some agency appeals, as well as all other matters that are now considered by the CCPA or the Court of Claims. . . . ***The CCPA decides patent and customs cases from several sources, and those cases often include allegations of defenses of “misuse, fraud, inequitable conduct, violations of the antitrust laws, breach of trade secret agreements, unfair competition, and such common law claims as unjust enrichment.”***³⁸

The Senate Report offered a similar reply to those criticisms, adding that “[t]he judges will have no lack of exposure to a broad variety of legal problems, . . . [and] the subject matter of the new court will be sufficiently mixed to prevent any special interest from dominating it.”³⁹

³⁷ Lever, *supra* note 8, at 203-04 & nn.72, 73 (citing various portions of legislative history of H.R. 3806, H.R. 2405, S. 677 and S. 678).

³⁸ House Report, *supra* note 30, at 19 (quoting statement submitted to Hruska Commission, May 20, 1974) (internal footnotes omitted).

³⁹ Senate Report, *supra* note 34, at 6.

Opponents of the legislation also voiced objection to the scope of the court's appellate jurisdiction over patent cases in the district courts. Section 1295(a)(1), as enacted, provides that "the United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction-- . . . of an appeal from a final decision of a district court of the United States . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title" ⁴⁰ Thus, the CAFC's appellate jurisdiction under § 1295(a)(1) is defined in relation to the district court's subject matter jurisdiction over the entire action. ⁴¹

Many believed the CAFC's jurisdictional grant was overly broad, and that the language could be construed to mean that the CAFC would exercise jurisdiction over any case in which a patent issue was raised by any party. Rather than attempting to formulate specific rules for determining the boundaries of the CAFC's jurisdiction in various situations, Congress left it to the court to develop its own standards on a case-by-case basis. Nevertheless, the Senate and House Reports provided general guidance on the issue. The Senate Report stated:

Concern has been expressed that the [CAFC] will appropriate for itself elements of Federal law under its section 1295(a)(1) grant of jurisdiction. It has been argued that a jurisdictional grant to the new court to consider appeals from a district court when jurisdiction was based "in whole or in part," on section 1338 of title 28 (which confers on the district courts original jurisdiction of any civil action arising under an act of Congress relating to patents . . .) is too broad and *that specious patent claims will be tied, for example, to substantial antitrust claims in order to create jurisdiction under 28 U.S.C. § 1338*. This is a substantial requirement. Immaterial, inferential and frivolous allegations of patent questions will not create jurisdiction in the lower court, and therefore there will be no jurisdiction over these questions in the appellate court. As stated above, it is a canon of construction

⁴⁰ 28 U.S.C. § 1295(a)(1).

⁴¹ As the House Report explains: "if the district court has jurisdiction . . . on the ground that the case arises under the patent law, the appeal in that case[] will go" to the CAFC. House Report, *supra* note 30, at 23-24.

that courts strictly construe their jurisdiction. Therefore, the committee is confident that the present language will not pose undue difficulties.

This measure . . . is not intended to create forum shopping opportunities between the Federal Circuit and the regional courts of appeals on other claims. ***Thus, for example, mere joinder of a patent claim in a case whose gravamen is antitrust should not be permitted to avail a plaintiff of the jurisdiction of the Federal Circuit in avoidance of the traditional jurisdiction and governing legal interpretations of a regional court of appeals.*** Federal District judges are encouraged to use their authority under Federal Rules of Civil Procedure, *see* Rules 13(i), 16, 20(b), 42(b), 54(b), to ensure the integrity of the jurisdiction of the federal court of appeals ***by separating final decisions on claims involving substantial antitrust issues from trivial patent claims, counterclaims, cross-claims, or third party claims raised to manipulate appellate jurisdiction.***

The Committee intends for the jurisdictional language to be construed in accordance with the objectives of the Act and these concerns. ***If, for example, a patent claim is manipulatively joined to an antitrust action but severed or dismissed before final decision of the antitrust claim, jurisdiction over the appeal should not be changed by this Act but should rest with the regional court of appeals.***⁴²

The House Report responded similarly, adding:

Should questions legitimately arise respecting ancillary and pendent claims and for the direction of appeals in particular cases, the Committee expects the courts to establish, as they have in similar situations, jurisdictional guidelines respecting such cases. Whatever form such guidelines for particular cases may take, the proposal would continue to provide a consistent jurisprudence and a uniform body of patent law created over time by the Court of Appeals for the Federal Circuit, . . . or the Supreme Court.

Paragraph (1) of new section 1295(a) gives the Court of Appeals for the Federal Circuit jurisdiction of any appeal in which the trial court jurisdiction was based, in whole or in part, on section 1338 of title 28. . . . Cases will be within the jurisdiction of the Court of Appeals for the Federal Circuit in the same sense that cases are said to “arise under” federal law for purposes of federal

⁴² Senate Report, *supra* note 34, at 19-20 (emphasis added).

question jurisdiction. *Contrast Coastal States Marketing Inc. v. New England Petroleum Corp*, 604 F.2d 179 (2d Cir. 1979).⁴³

Opponents of the legislation specifically raised concerns relating to the CAFC's appellate jurisdiction over antitrust cases. In addressing the potential jurisdictional issues that might arise from the interplay of antitrust and patent claims in a single case, commentary in the Senate Report stated:

[C]ertain specific problems may be anticipated, but so too can their remedies. At the pleading stage, a defendant charged with

⁴³ House Report, *supra* note 30, at 41. Courts and commentators have interpreted the House Report as indicating that Congress intended to adopt an “arising under” approach to jurisdiction in which an entire case would be appealable to the CAFC if a claim pleaded in the complaint arose under the patent laws. *E.g.*, *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282, 1286 n.3 (9th Cir. 1984), *cert. denied*, 469 U.S. 1190 (1985); Hon. Jon O. Newman, *Tails and Dogs: Patent and Antitrust Appeals in the Court of Appeals for the Federal Circuit*, 10 Am. Pat. L.A.Q.J. 237 (1982). The jurisdictional approach taken in *Coastal States*, which is cited in the legislative history, was termed “issue” jurisdiction. If Congress had chosen to adopt the “issue jurisdiction” approach, only issues related to patent claims could have been appealed to the CAFC. Judge Newman’s article, however, suggests that, consistent with the legislative history, district courts could and should exercise their ability to sever patent and non-patent claims for appellate purposes, thus achieving similar results as if Congress had adopted issue jurisdiction for the CAFC. Judge Newman argues that district courts should “generous[ly]” use their ability to sever patent and non-patent claims under Rule 42(b) to ensure against forum shopping and to allow antitrust issues in patent cases to be appealed to the regional circuits. Judge Newman explains:

First, as the legislative history makes clear, manipulation of the jurisdiction of the CAFC is to be avoided, and severance of non-patent issues provides a useful technique not only for guarding against such abuse, but also for eliminating even disputes about manipulation, such as whether the antitrust claim is really the gravamen of the case. Second, though the CAFC will doubtless have the competence to adjudicate all issues presented to it, including antitrust issues joined with other patent issues, the orderly development of the law will be better served by leaving antitrust issues with the regional courts of appeals, so that lawyers and district judges within the various circuits can conduct antitrust litigation in light of the procedural and substantive nuances of antitrust law that exist in each of the circuits. The purpose of the Act is to promote uniformity as to patent law; it is not to create duality as to antitrust law.

Newman, *supra*, at 241.

patent infringement often includes a defense and counterclaim described as based on violation by the plaintiff patent-owner of the antitrust laws. That alleged violation is a court-created gloss on the antitrust laws. It is of a particular nature, namely, a “misuse” of the patent (enforcing a patent known to be invalid, obtained by fraud, etc; requiring a patent licensee to accept unwanted licenses under other patents; extending a patent licensee’s royalty obligation beyond expiration of the patent). ***Though couched in antitrust terms, the issues are patent issues. They are not those involved in a suit based on the Sherman or Clayton Acts (relevant market; conspiracy to fix prices; refusal to deal; commercial favoritism).***

Allegations of patent-misuse type of antitrust violations do not change the nature of the case from one in which jurisdiction was based on section 1338 of title 28. . . . As indicated, the issues raised are patent issues merely couched in antitrust terms. No difficulty would occur in the appeal of those cases to the Court of Appeals for the Federal Circuit. Indeed, maximum achievement of a major goal of the bill, the provision of reliability and uniformity in the rules to be applied in patent case, would require direction of the appeal in those cases to the Court of Appeals for the Federal Circuit.⁴⁴

Despite the significant amount of debate that took place over the years preceding the formation of the CAFC, the proponents of the concept of a specialized appellate court for patent cases prevailed. On November 18, 1981, the House passed H.R. 4482, and on December 8, 1981, the Senate passed S. 1700.⁴⁵ Shortly thereafter, in March 1982, Congress worked out minor differences in their versions of the legislation and submitted a revised bill for the president’s signature. President Reagan signed the FCIA into law on April 2, 1982.⁴⁶

⁴⁴ House Report, App. B., *supra* note 30, at 37 (Letter of Oct. 19, 1981, from Williams James Weller, Leg. Affairs Officer to Sen. Robert Dole, Chairman, Subcommittee. on Courts, Committee on the Judiciary, United States Senate) (emphasis added).

⁴⁵ Lever, *supra* note 8, at 196-97.

⁴⁶ *Id.*; see also *History of the CAFC*, *supra* note 4, at 7-8.

D. **Has The Federal Circuit Gone Beyond Its Legislative Mandate?**

Some commentators have questioned whether or not the Federal Circuit has now assumed a role in developing antitrust law that goes beyond that intended by Congress. For example, Professor James B. Gambrell, a proponent of the creation of the Federal Circuit, has expressed his view that the court's "job is to develop uniformity and consistency in the patent law, not in every law relating to patents."⁴⁷ In another article analyzing Federal Circuit rulings on competition issues, James B. Kobak, Jr., questioned "whether Congress ever expected the Federal Circuit to have the institutional competence to not only to make broad pronouncements about antitrust policy but also to assert that those pronouncements supplant the views of other circuits."⁴⁸ Other commentators have asserted broadly that "Congress never intended the Federal Circuit to influence the development of antitrust law."⁴⁹

The legislative history discussed above makes it clear that the stated goal of Congress in creating the court was to achieve uniformity in the interpretation and development of patent law. Congress intended the role of the Federal Circuit to be tightly circumscribed and did not intend that role to expand beyond patent law without "serious future evaluation" and "new legislation."⁵⁰ Thus, it could be (and has been) argued that Congress intended that antitrust law should develop in line with the "governing legal interpretations of a regional court of appeals."

⁴⁷ James B. Gambrell, *The Evolving Interplay of Patent Rights and Antitrust Restraints in the Federal Circuit*, 9 Tex. Intell. Prop. L.J. 137, 146 (Winter 2001).

⁴⁸ James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court*, 83 J. of the Patent and Trademark Off. Soc'y 527, 542 (Aug. 2001).

⁴⁹ Ronald S. Katz and Adam J. Safer, *In Ruling on Antitrust, Does Fed. Circuit Overstep?*, Nat'l L.J. Oct. 16, 200, at C20; *see also*, Ronald S. Katz and Adam J. Safer, *Should One Patent Court Be Making Antitrust Law For The Whole Country?*, 69 Antitrust L.J. 687 (2002).

⁵⁰ Senate Report, *supra* note 34, at 4.

On the other hand, there are arguments to the contrary that are worth considering. The antitrust laws can play a powerful role in shaping the scope of patent rights. Indeed, this notion is implicit in the manner in which certain critics of the Federal Circuit’s recent antitrust jurisprudence have referred (with favor) to “patent rights being circumscribed by core antitrust principles.”⁵¹ A holding that particular actions in the prosecution of a patent, or the manner in which it was used after issuance, violates the antitrust laws may be tantamount to holding that the patent does not give its owner the right to engage in such conduct. An antitrust rule that requires a patent holder to license its technology to a rival in particular circumstances could be viewed as saying that the patent does not confer the right to exclude in those circumstances. Viewed in this way, the development of the law on the circumstances in which the rights of a patent holder must give way to antitrust principles is arguably relevant to Congress’ concern regarding “the widespread lack of uniformity and uncertainty of legal doctrine that exists in the administration of patent law.”⁵²

Moreover, although some have criticized the Federal Circuit for going beyond its legislative mandate, the legislative history does not appear to support the view expressed by some commentators that Congress never intended the Federal Circuit to influence the development of antitrust law. The portions of the legislative history typically cited to support this position refer specifically to the joinder of “frivolous” or “specious” patent claims to “substantial” antitrust claims as a manner to manipulate the jurisdictional rules.⁵³ However, the cases in which the Federal Circuit has decided antitrust issues do not appear to have involved a frivolous or trivial patent claim joined with an antitrust issue merely to influence the path of the appeal. In addition,

⁵¹ Gambrell, *supra* note 47, at 139.

⁵² House Report, *supra* note 30, at 23.

⁵³ Senate Report, *supra* note 34, at 19-20.

as explained above, certain comments in the legislative history explicitly recognize that certain types of antitrust issues “though couched in antitrust terms . . . are patent issues.”⁵⁴

The legislative history offers some support for both critics and supporters of the CAFC’s antitrust jurisprudence. Although Congress intended to circumscribe tightly the role of the CAFC, it explicitly recognized that the Court would have occasion to consider and rule upon particular types of antitrust issues at least where they arose in a patent infringement lawsuit. At the same time, however, it encouraged district courts to use their procedural powers to sever and separate claims so as “to ensure the integrity of the jurisdiction of the federal court of appeals.” Thus, although Congress appears to have intended the CAFC to have a limited role in developing law on specific types of antitrust issues (particularly when based on the prosecution of a patent or certain licensing provisions), it also expected the court -- and the district courts -- to guard carefully against expanding the scope of that role into antitrust issues that were not closely linked to serious and substantial questions of patent law.

The following sections will explore how the Federal Circuit has struggled with this legislative mandate in ruling on issues related to its appellate jurisdiction, its choice of law rules and substantive antitrust law.

II. The Development of the Law on the Jurisdiction of the Court of Appeals for the Federal Circuit over Non-Patent Issues

A. The Statutory Framework

The Federal Circuit’s jurisdiction over cases raising antitrust and other non-patent issues is based on 28 U.S.C. § 1295(a)(1). As previously mentioned, that statute gives the court “exclusive jurisdiction of an appeal from a final decision of a district court . . . if the jurisdiction of that court was based, in whole or in part, on section 1338 of this title [except for copyright and

⁵⁴ House Report, *supra* note 30, at 37.

trademark cases].” Section 1338 of 28 U.S.C. gives the federal district courts original jurisdiction over “civil actions arising under any Acts of Congress relating to patents” Thus, these two statutes give the Federal Circuit exclusive appellate jurisdiction over cases in which the district court’s jurisdiction was based “in whole or in part” upon a claim “arising under” any federal statute relating to patents.

When an appeal in a case meeting this description presents an antitrust issue, or, indeed, any non-patent issue, the Federal Circuit will necessarily decide the issue, either by applying its own law or that of the regional circuit from which the case arose. Indeed, in addition to antitrust issues, the Federal Circuit has decided issues arising in other areas of the law as well, including unfair competition and FDA law.

**B. The Well-Pleaded Complaint Rule and Federal Circuit Jurisdiction:
*Christianson v. Colt Industries Operating Corporation***

The starting point of any analysis of the law on Federal Circuit jurisdiction is the Supreme Court’s decision in *Christianson v. Colt Industries Operating Corp.*, 486 U.S. 800 (1988), although the Court has added to its body of law on Federal Circuit jurisdiction in its recent decision in *Holmes*. In *Christianson*, the Supreme Court held that, in determining whether or not a case arises under patent law for jurisdictional purposes, a court must apply the same well-pleaded complaint rule that is applied for purposes of determining federal jurisdiction generally.

Christianson was a former employee of Colt Industries, the manufacturer of the M16 rifle. *Christianson* sold M16 parts based on Colt’s waiver of certain proprietary rights. Colt named *Christianson* as a defendant in a patent infringement suit, notified *Christianson*’s customers that he was misappropriating Colt’s trade secrets, and urged those customers to refuse to purchase parts from him. After Colt dismissed its infringement claims against him, *Christianson* filed a complaint alleging only antitrust and tort violations. Colt asserted in defense

that its conduct was justified by a need to protect its trade secrets and filed counterclaims alleging misappropriation of M16 specifications. 486 U.S. at 804-06.

Christianson moved for summary judgment, arguing that Colt's patents covering the M16 had expired and had, in any event, been invalid because they failed to include information required under 35 U.S.C. § 112.⁵⁵ Christianson argued that because Colt benefited from the protections of invalid patents, Colt could not now claim trade secret protection for information that it should have included in the patents. The district court relied on Christianson's patent-based theory in awarding him summary judgment on his antitrust and tort claims. *Id.* at 806.

Colt appealed to the Federal Circuit and a jurisdictional ping-pong match followed. The Federal Circuit transferred the case to the Seventh Circuit on the theory that its appellate jurisdiction is defined solely by the complaint, which had no basis in the patent statutes. *Christianson v. Colt Indus. Operating Corp.*, 822 F.2d 1544, 1549 (Fed. Cir. 1987), *vacated*, 480 U.S. 800 (1988). The Seventh Circuit, raising the jurisdiction issue *sua sponte*, disagreed with the Federal Circuit, calling its decision "clearly wrong," and transferred the case back to the Federal Circuit. *Christianson v. Colt Indus. Operating Corp.*, 798 F.2d 1051, 1057-60 (7th Cir. 1986), *rev'd in part and vacated in part*, 822 F.2d 1544 (Fed. Cir. 1987), *vacated* 486 U.S. 800 (1988). The Federal Circuit continued to maintain that it lacked jurisdiction and stated that the Seventh Circuit exhibited "a monumental misunderstanding of the patent jurisdiction granted this court." 822 F.2d at 1547. It decided the case anyway, "in the interest of justice." 822 F.2d at 1559.

⁵⁵ That section requires that a patent provide sufficient information to enable a person skilled in the art to make and use the claimed invention and that the patent disclose the "best mode" of doing so.

The Supreme Court defined the jurisdictional issue as whether the case was one “arising under” a federal patent statute as required by 28 U.S.C § 1338. According to the Court, “linguistic consistency” demanded that it interpret the term “arising under” in section 1338 as it interpreted the identical term in the general federal-question provision, 28 U.S.C. § 1331. Section 1331 gives the federal district courts jurisdiction over all actions “arising under the Constitution, laws, or treaties of the United States.” 486 U.S. at 807-08; *see also* H.R. Rep. No. 97-312 at 41 (cases fall within the Federal Circuit’s patent jurisdiction “in the same sense that cases are said to ‘arise under’ federal law for purposes of federal question jurisdiction”).

The Court stated that because federal-question jurisdiction depended on the well-pleaded complaint rule, so would the Federal Circuit’s jurisdiction. Under the well-pleaded complaint rule, the existence of federal subject matter jurisdiction is based exclusively on a review of the plaintiffs’ complaint. If a cause of action pleaded in the complaint was created by federal law or if the plaintiffs’ claim for relief requires resolution of a substantial question of federal law, the plaintiffs’ claim is said to “arise under” federal law for purposes of subject matter jurisdiction. Thus, the Court held that section 1338 jurisdiction, and, therefore, the Federal Circuit’s jurisdiction, extended “only to those cases in which a well-pleaded complaint establishes either [1] that federal patent law creates the cause of action or [2] that the plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law, in that patent law is a necessary element of one of the well-pleaded claims.” *Id.* at 809 (numbering added).

In analyzing the case before it, the Court determined that Christianson’s complaint clearly failed the first alternative prong: federal patent law did not create his cause of action. The Court cautioned that a case raising a federal patent-law defense does not “arise under” patent law, even if the complaint anticipates that defense and even if both parties admit that the defense is the only question at issue in the case. *Id.* at 809.

The Court also determined that Christianson’s complaint failed the second alternative prong: his right to relief did not “necessarily depend on resolution of a substantial question of patent law.” The Court cautioned that a claim supported by alternative theories in the complaint does not “arise under” patent law unless patent law is essential to *each* of those theories. *Id.* at 810. The monopolization theory on which Christianson prevailed in district court and for which the patent issues were arguably essential, was only one of several monopolization theories presented in the complaint. Because alternative, non-patent theories might support the monopolization claim, the claim did not “arise under” federal patent law. *Id.* at 812. The Court also rejected Colt’s argument that Federal Circuit jurisdiction should depend on the case as litigated. The Court reasoned that even if such an analysis, rather than the well-pleaded complaint rule, would further Congress’ goal of creating uniformity in patent doctrine, the jurisdictional statutes and their reliance on the “arising under” language clearly prohibited this result. *Id.* at 813-14.

Finally, the Court guarded against another jurisdictional “ping-pong” match by providing that law of the case principles apply to a court’s transfer decision based on jurisdiction. The first appellate court to rule on whether a case should be reviewed by a regional circuit or by the Federal Circuit establishes the law of the case on that issue. If the first appellate court transfers the case on jurisdictional grounds, the receiving court may not transfer it back. *Id.* at 816-18.⁵⁶

⁵⁶ This latter point raises an interesting potential for a split among the circuit courts on the scope of the Federal Circuit’s jurisdiction. Either a regional circuit or the Federal Circuit may make the initial determination of whether a complaint “arises under” the patent laws and the case’s proper appellate path. *U.S. Valves, Inc. v. Dray*, 190 F.3d 811, 813 n.5 (7th Cir. 1999); *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288, 290-91 (5th Cir. 1997); *Smith v. Orr*, 855 F.2d 1544, 1547 (Fed. Cir. 1988). Thus, the party that notices the appeal and chooses the appellate court necessarily chooses the court that will address the issue of appellate jurisdiction. Because the receiving court may not second-guess the original court’s jurisdictional analysis, the receiving court need not agree with that analysis before addressing the merits of the case. The different circuits may espouse

C. Jurisdiction Based “In Whole or In Part” on the Patent Laws

Under *Christianson*, when a patent claim is present in a case under the well-pleaded complaint rule, the district court’s jurisdiction arises under the patent laws and the Federal Circuit will have exclusive jurisdiction over appeals related to antitrust or other non-patent issues based on the “in whole or in part” language of 28 U.S.C. § 1295(a)(1). This remains true even when patent issues are no longer in the case. The Federal Circuit has stated that “the path of appeal is determined by the basis of jurisdiction in the district court, and is not controlled by the district court’s decision or the substance of the issues that are appealed.” *Abbott Lab. v. Brennan*, 952 F.2d 1346, 1349 (Fed. Cir. 1991), *cert. denied*, 505 U.S. 1205 (1992); *In re BBC Int’l Ltd.*, 99 F.3d 811 (7th Cir. 1996) (“[T]he nature of the issue does not matter. If the district court’s jurisdiction rests on a patent claim, then an appeal from an entirely non-patent disposition goes to the Federal Circuit.”).

The circuit courts have developed the scope of the Federal Circuit’s jurisdiction in a variety of cases in which patent claims are present in the same case as antitrust and other non-patent claims. The jurisdictional issues have arisen in a number of contexts -- including where patent claims are combined with non-patent claims, patent issues are raised in a counterclaim, the patent claims are dismissed prior to the appeal, the patent and non-patent claims are separated, and where the district court issues a partial judgment covering only the non-patent claims. These various scenarios are discussed below.

1. Patent Claim Combined with Non-Patent Claim or Counterclaim

different interpretations of the jurisdictional statutes. A split is not inevitable, however. Regional circuit decisions often look to the Federal Circuit for guidance on the scope of the Federal Circuit’s jurisdiction. *See, e.g. U.S. Valves, Inc.*, 190 F.3d at 814 (discussing *Hunter Douglas, Inc. v. Harmonic Design*, 153 F.3d 1318 (Fed. Cir. 1998)).

The “in whole or in part” language of section 1295 operates to give the Federal Circuit jurisdiction over non-patent issues in a variety of situations, such as when a plaintiff asserts both patent and non-patent claims, a defendant asserts a non-patent counterclaim in a patent case, or when a patent case is consolidated with a non-patent case. Several cases illustrate these points.

In *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc), for example, Atari sued JS&A for patent infringement, copyright infringement and state law claims of deceptive trade practices based on JS&A’s sale of a product called the “Prom Blaster.” The district court issued a preliminary injunction on the copyright infringement claim without ruling on any patent issue and JS&A appealed to the Federal Circuit. The Federal Circuit asserted jurisdiction over the copyright appeal because Atari’s patent infringement claim based the district court’s jurisdiction, at least in part, on 28 U.S.C. § 1338. *Id.* at 1431-32.⁵⁷

Similarly, in *U.S. Philips Corp. v. Windmere Corp.*, 861 F.2d 695 (Fed. Cir. 1988), *cert. denied*, 490 U.S. 1068 (1989), the plaintiff charged patent infringement and the defendant counterclaimed for antitrust violations. The Federal Circuit held that it had jurisdiction over a certified appeal of a directed verdict on the antitrust counterclaim, even though the appeal presented no questions under the patent laws. *Id.*; *see also Technicon Instr. Corp. v. Alpkem Corp.*, 866 F.2d 417, 419-20 (Fed. Cir. 1989) (accepting jurisdiction over antitrust claim that had been stayed pending resolution of patent claim where appeal of patent claim was completed); *Korody-Colyer Corp. v. Gen. Motors Corp.*, 828 F.2d 1572, 1574 (Fed. Cir. 1987) (same).

Subsequent procedural events -- such as the consolidation of cases -- may also bring non-patent claims within the jurisdiction of the Federal Circuit even where those claims as originally filed did not arise under the patent laws. In *Interpart Corp. v. Imos Italia*, 777 F.2d 678 (Fed.Cir.

⁵⁷ An in-depth discussion of this case is provided below at section II.C.4.

1985), the Federal Circuit asserted jurisdiction over Lanham Act and state unfair competition claims that were originally filed alone, but later consolidated with a patent case. The court reasoned that when the nonpatent and patent claims were consolidated, they became one “case” and the district court’s jurisdiction was then based “in part” on section 1338. *Id.* at 680-81. The Federal Circuit will similarly have jurisdiction over an appeal from an antitrust case consolidated with a patent case. *E.g., In re Innotron Diagnostics*, 800 F.2d 1077, 1079-80 (Fed. Cir. 1986); *see also Eaton Corp. v. Appliance Valves Corp.*, 790 F.2d 874, 876 n.3 (Fed. Cir. 1986) (when plaintiff amends complaint to add patent claims to non-patent claims, he triggers the district court’s section 1338 jurisdiction and, therefore, Federal Circuit jurisdiction); *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153, 1158 (Fed. Cir. 1996) (asserting jurisdiction over antitrust issue in case where plaintiff sought declaratory judgment of patent invalidity and alleged antitrust claims).

2. Patent Claim Raised as a Counterclaim in a Non-Patent Case

In some cases, the plaintiff raises only non-patent claims in its complaint, but the defendant raises a counterclaim for patent infringement. This was the situation, for example, in *CSU, LLC v. Xerox*, 203 F.2d 1322 (Fed. Cir. 2000), in which Xerox asserted a patent infringement counterclaim in response to CSU’s antitrust claim and the Federal Circuit considered the appeal of the district court’s grant of summary judgment against CSU on its antitrust claims.⁵⁸ In *Holmes Group, Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. Ct.

⁵⁸ Although important, *CSU* is a rare antitrust case from a jurisdictional perspective. More typically, antitrust claims are asserted as counterclaims in patent infringement actions, rather than the other way around. In fact, *CSU* appears to be the only published case appealed directly to the Federal Circuit in which the court’s jurisdiction over antitrust issues was based solely on a patent infringement counterclaim. *But see Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608 (1st Cir. 1987) (transferring appeal from denial of preliminary injunction to Federal Circuit on the grounds that the presence of a patent counterclaim meant that the district court’s jurisdiction was based in part on §1338). The only other case that presents a similar, but distinguishable, situation is *Atari Games Corp. v.*

1889 (2002), however, the Supreme Court earlier this month held that the Federal Circuit does not have jurisdiction over appeals in cases such as *CSU*.

Prior to *Holmes*, the Federal Circuit held that a compulsory counterclaim was as effective as a complaint in triggering the Federal Circuit's jurisdiction, and the regional circuits had agreed. *Aerojet-General Corp. v. Machine Tool Works*, 895 F.2d 736, 742 (Fed. Cir. 1990) (en banc); see also *U.S. Valves, Inc. v. Dray*, 190 F.3d 811, 813 n. 6 (7th Cir. 1999) ("Our analysis does not change when the possible basis for Federal Circuit jurisdiction resides in a counterclaim."); *Xeta, Inc. v. Atex, Inc.*, 825 F.2d 604, 608 (1st Cir. 1987) (transferring appeal from denial of preliminary injunction against antitrust violations to Federal Circuit on grounds a patent counterclaim based the district court's jurisdiction in part on section 1338).

In 1999, the Federal Circuit extended its reach beyond cases involving compulsory counterclaims to those including permissive counterclaims in *DSC Communications Corp. v. Pulse Communications, Inc.*, 170 F.3d 1354 (Fed. Cir.), cert. denied, 528 U.S. 923 (1999). The court held that any counterclaim, even if permissive, raising a substantial question of patent law, supported its appellate jurisdiction. The court acknowledged that *Aerojet* did not decide the issue of whether permissive counterclaims triggered its jurisdiction, but tersely explained, "we see no sufficient basis in the language or purpose of section 1295(a)(1) to distinguish between compulsory and permissive counterclaims." *Id.* at 1359.

Nintendo of America, 897 F.2d 1572, 1574 (Fed. Cir. 1990), in which the district court consolidated the antitrust and unfair competition claims filed by Atari with the later-filed infringement action by Nintendo. *CSU* also was unusual in that, on appeal, no issue was presented with respect to interpretation of the patent claims or their application to the activities of the excluded market participants. Often such an issue might arise on appeal, particularly in a refusal to deal context, and it could be seen as justifying jurisdiction based on *Christianson*'s second prong.

Even before the Supreme Court's decision in *Holmes*, which settled the issue, the case for Federal Circuit jurisdiction was more difficult in actions in which the patent issues are raised only in a counterclaim than in cases in which the plaintiffs' complaint raises claims under the patent laws that are also joined with non-patent claims. The Federal Circuit's analysis in *Aerojet* illuminates some of these difficulties. In January 1987, Aerojet sued Machine Tool Works in federal district court for unfair competition, interference with prospective advantage and false representation under the Lanham Act, and a declaratory judgment that it had misappropriated trade secrets. The sole claim set forth in Aerojet's complaint was the allegation that Machine Tool Works made knowingly false representations that Aerojet's ammunition was based on trade secrets misappropriated from Machine Tool Works. Machine Tool Works answered and counterclaimed for breach of contract, unfair competition, trade secret misappropriation, false representation under the Lanham Act and patent infringement. The parties agreed that the counterclaims were compulsory. *Id.* at 737-38.

In an *en banc* opinion, the Federal Circuit held that a nonfrivolous, compulsory counterclaim for patent infringement gave it jurisdiction over any appeal of the case. The court explained:

It would seem at best incongruous to hold that we have appellate jurisdiction when a well-pleaded patent infringement claim is the basis of a pleading labeled 'complaint' but not when the identical well-pleaded claim is the basis of a pleading labeled 'counterclaim.' The distinctions between complaints and counterclaims can be important in other contexts, but can have no meaningful role in governing the direction of the appeal under the unique statute that created this court when the counterclaim arises under the patent laws.

Id. at 742. The Federal Circuit acknowledged *Christianson*'s holding that its jurisdiction must be determined by application of the well-pleaded complaint rule but cautioned that "it should be remembered that the phrase 'well-pleaded complaint' is merely the name of the rule, not a

statement of a principle of law.” *Id.* at 741, 743. The court also acknowledged, albeit only in a footnote, that a counterclaim for patent infringement does not satisfy the “well-pleaded complaint rule” as traditionally understood and, therefore, a counterclaim will not support removal from state to federal court. *Id.* at 739 n. 4 (citing *Rath Packing Co. v. Becker*, 530 F.2d 1295, 1303 (9th Cir. 1975), *aff’d on other grounds sub nom, Jones v. Rath Packing Co.*, 430 U.S. 519 (1977)). Nevertheless, in apparent conflict with *Christianson*, the court held that it could exercise appellate jurisdiction over a case based entirely on the assertion of a counterclaim based on patent law.

The court in *Aerojet* relied on two principal arguments to avoid the application of the well-pleaded complaint rule. First, the court explained that federal courts have repeatedly retained jurisdiction and adjudicated a federal counterclaim having its own jurisdictional basis even when the court had no jurisdiction over the complaint or the plaintiff had voluntarily dismissed the complaint. *Id.* at 742-743 (collecting cases); *see, e.g., Rengo Co. v. Molins Mach. Co.*, 657 F.2d 535, 539 (3d Cir.), *cert. denied*, 454 U.S. 1055 (1981) (“A jurisdictional defect in the complaint will not preclude adjudication of a counterclaim over which the court has an independent basis of [federal] jurisdiction”).⁵⁹ Second, the court concluded that disregarding compulsory counterclaims for patent infringement in determining its jurisdiction would disserve Congress’ intent in creating the court to achieve greater uniformity in patent claims. *Aerojet*, 895 F.2d at 744 (“Congress did not mention the ‘well-pleaded complaint rule’ as such and no warrant

⁵⁹ The court justified its decision to rely on this line of cases rather than those cases requiring that only the complaint, and not a counterclaim, be examined in analyzing the well-pleaded complaint rule on the grounds that the latter cases arose in the removal context. According to the Court, removal raised the potential for serious federal-state conflicts that do not exist in the context of simply deciding to which federal appellate court an appeal must be directed. *Id.* at 743-44.

exists for reading that judicially created device into the statute when doing so would defeat the congressional purpose.”). *Id.*

The Supreme Court recently definitively answered the question of whether patent counterclaims trigger Federal Circuit jurisdiction in *Holmes Group Inc. v. Vornado Air Circulation Systems, Inc.*, 122 S. Ct. 1889 (2002). Holmes and Vornado sell household fans. Vornado accused Holmes of infringing its trade dress based on the design of its fan. In response, Holmes sued in federal district court alleging a Lanham Act claim (15 U.S.C. § 1125(a)), declaratory judgment of non-liability for trade dress infringement under the Lanham Act and various state law claims. Vornado filed a compulsory counterclaim for patent infringement. The district court entered summary judgment for Holmes on the Lanham Act claim on the grounds that Vornado was collaterally estopped from asserting trade dress protection in the fans by an earlier decision in the case, *Vornado Air Circulation Sys., Inc. v. Duracraft Corp.*, 58 F.3d 1498 (10th Cir. 1995).⁶⁰ On the parties’ joint motion, the district court entered a partial final judgment under Fed. R.Civ. P. 54(b), making the trade dress issue immediately appealable, and stayed the patent issues.

Vornado appealed to the Federal Circuit on the basis that its infringement counterclaim gave that court jurisdiction. Holmes, in turn, argued the court lacked jurisdiction. The Federal Circuit entered an unpublished two paragraph *per curiam* order vacating the district court’s judgment and remanding the case for reconsideration of whether the “change in the law” exception to collateral estoppel applied in view of the Supreme Court’s decision concerning trade dress issues in *Traffix Devices v. Marketing Displays, Inc.*, 121 S. Ct. 1255 (2001). The Federal Circuit’s order did not address its jurisdiction. *Holmes Group Inc. v. Vornado Air Circulation*

⁶⁰ The district court’s opinion may be found at 93 F. Supp. 2d 1140 (Kan. 2000), *vacated*, No. 00-1286, 2001 WL 712760 (Fed. Cir. June 5, 2001), *vacated*, 122 S. Ct. 1896 (2002).

Sys., Inc., No. 00-1286, 2001 WL 712760 (Fed. Cir. June 5, 2001), , vacated, 122 S. Ct. 1896 (2002). In response to Holmes’s Petition for Certiorari, the Supreme Court accepted two of the issues it raised:

Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of district courts in cases wherein the well-pleaded complaint of the prevailing plaintiff does not allege any claim arising under federal patent law?

Did the Court of Appeals for the Federal Circuit err in concluding that this action “arises under” federal patent law for purposes of 28 U.S.C. §§ 1295(a)(1) and 1338(a)?

Pet. for Writ of Cert. at ii, *Holmes Group Inc. v. Vornado Air Circulation Sys., Inc.*, (U.S. 2001) (No. 01-408).⁶¹

The Supreme Court’s decision answers these questions quite clearly -- Section 1295(a)(1) requires that the plaintiff’s complaint allege a claim arising under federal patent law in order to

⁶¹ On these points, Holmes argued that the Federal Circuit’s exercise of jurisdiction based on a counterclaim violates the well-pleaded complaint rule, which, according to Holmes, requires the court to look only to the claims in the plaintiff’s complaint for jurisdictional purposes. In support of this argument, Holmes cited to cases from the Fifth, Seventh and Ninth Circuits holding that a counterclaim does not affect whether or not a claim arises under federal law for removal purposes. *See Metro Ford Truck Sales, Inc. v. Ford Motor Co.*, 145 F.3d 320, 326-27 (5th Cir. 1998); *FDIC v. Elephant*, 790 F.2d 661, 667 (7th Cir. 1986); *Takeda v. Northwestern Nat’l Life Ins. Co.*, 765 F.2d 815, 822 (9th Cir. 1985). Vornado, on the other hand, defended the Federal Circuit’s decision in *Aerojet* and relied on cases (cited in *Aerojet*) holding that a federal counterclaim can support federal jurisdiction when the plaintiff’s claims have been dismissed. *See Aerojet*, 895 F.2d at 742-43. In its decision, the Supreme Court stated that the latter line of cases have nothing to do with the well-pleaded complaint rule or “arising under” jurisdiction. *Holmes*, 122 S.Ct. at 1895 n.4.

Interestingly, the Supreme Court declined to hear one of the questions presented by Holmes:

Does 28 U.S.C. § 1295(a)(1) divest regional Circuits of jurisdiction to decide appeals of final decisions of non-patent claims, where judgment is entered pursuant to Fed. R. Civ. P. 54(b) and is not based, in whole or in part, on 28 U.S.C. § 1338(a)?

trigger Federal Circuit jurisdiction. *Holmes*, 122 S. Ct. at 1893. The Supreme Court held that the Federal Circuit erred in asserting jurisdiction in *Holmes* because the patent claim was alleged in a counterclaim, not the complaint. The Court “decline[d] to transfer the longstanding well-pleaded complaint rule into the ‘well-pleaded complaint -- or -- counterclaim rule’ urged by respondent.”

Id. The Court also rejected the notion that the phrase “arising under” should be interpreted differently in ascertaining Federal Circuit jurisdiction than in ascertaining original jurisdiction of a district court. Relying in large part on its prior opinion in *Christianson*, the Court stated that “‘linguistic consistency’ requires us to apply the same test to determine whether a case arises under § 1338 as under § 1331” *Id.* at 1898. It explained that, “‘as appropriately adapted to § 1338(a),’ the well-pleaded complaint rule provides that whether a case ‘arises under’ patent law ‘must be determined from what necessarily appears in the plaintiff’s statement of his own claim in the bill or declaration.’” *Id.*

In that context, Justice Scalia, writing for the majority, rejected respondent’s view that effectuating Congress’ goal of “ensuring patent-law uniformity” in interpreting the statutory language required conferring exclusive jurisdiction in the Federal Circuit where a patent claim is raised. Rather, he characterized the Court’s task as a fairly straightforward matter of statutory interpretation: “Our task here is not to determine what would further Congress’ goal of ensuring patent-law uniformity, but to determine what the words of the statute must fairly be understood to mean.” *Id.* at 1895. The decision goes on to state that “[i]t would be an unprecedented feat of interpretative necromancy to say that § 1338(a)’s ‘arising under’ language means one thing (the well-pleaded complaint rule) in its own right, but something quite different (respondent’s complaint-or-counterclaim rule) when referred to by § 1295(a)(1).” *Id.* at 1895.

Under the holding in *Holmes*, cases such as *CSU* -- in which jurisdiction over the antitrust issues is based on a patent counterclaim -- will not be heard by the Federal Circuit.

Consequently, there is now more of a chance that patent-antitrust issues will be considered and decided upon by regional courts of appeals as well as by the Federal Circuit. Moreover, *Holmes* eliminates one possible motivation for an antitrust defendant to file a patent counterclaim -- to affect the jurisdictional path of the appeal (although it leaves open the possibility that a separately filed patent claim which is consolidated with an antitrust claim will trigger Federal Circuit jurisdiction).

At the same time, the decision may lead some to rush to court with patent or antitrust claims in order to secure or avoid Federal Circuit jurisdiction. Some may also express concern that the decision may lead to substantive splits in patent law interpretation. While it remains to be seen whether that will occur, it is also possible that the regional circuits will defer to Federal Circuit precedent in ruling on patent issues.

3. Patent Claims Dismissed Or Withdrawn

Occasionally, a case will present claims arising under the patent laws when initially filed, but prior to an appeal, the patent claims are withdrawn or dismissed. Under CAFC precedent, the jurisdictional consequences of a dismissal depends on whether it was voluntary and whether or not it is with or without prejudice.

An amendment to the complaint or counterclaim voluntarily removing all patent claims from the case may divest the Federal Circuit of jurisdiction over the remaining non-patent claims. In *Gronholz v. Sears, Roebuck & Co.*, 836 F.2d 515 (Fed. Cir. 1987), the plaintiff's voluntary dismissal of his patent claim without prejudice under Fed. R. Civ. P. 41(a) left only unfair competition claims in the case. The Federal Circuit held that the action was no longer one "arising under" the patent laws. *Id.* at 518. The voluntary dismissal acted as an amendment of the complaint under Rule 15. *Id.* The Federal Circuit extended this rationale to involuntary dismissals without prejudice under Rule 41(b) in *Nilssen v. Motorola, Inc.*, 203 F.3d 782 (Fed.

Cir. 2000), in which the court transferred an appeal of non-patent claims to the Seventh Circuit because the district court had dismissed the patent claims without prejudice to expedite the non-patent claims (although the plaintiff refiled the patent claims in a separate action).⁶² *Id.* at 785.

Despite the Federal Circuit's ruling in *Nilssen*, the jurisdictional effect of an involuntary dismissal of patent claims without prejudice remains unclear, particularly where -- as in *Nilssen* -- the dismissed patent claim is based on the same operative facts as the non-patent claims and has been refiled as a separate action. After the transfer, the Seventh Circuit was "restive" about its jurisdiction but the law of the case doctrine prohibited it from reviewing the Federal Circuit's decision. *Nilssen v. Motorola*, 255 F.3d 410, 411 (7th Cir. 2001). The Seventh Circuit, however, found (in its words) a way "to pull victory from the jaws of defeat," and to ensure that any future appeal would lie solely with the Federal Circuit. It vacated the judgment of the district court on the state law claims and remanded with instructions to consolidate the state law proceeding with the now-separate patent infringement action. *Id.* at 414-15. The Seventh Circuit determined that *Nilssen*'s state law and patent claims presented only one claim for relief based on "one nucleus of operative facts." *Id.* at 414. The court explained:

It makes no sense to send patent law theories to the Federal Circuit and state law theories to the regional circuit when only one "claim" is involved, and one circuit's decision may have preclusive effect on issues within the scope of the other's jurisdiction. Avoiding claim-splitting (with the waste of judicial resources and the potential for inconsistent appellate decisions) is why § 1295(a)(1) provides that, if jurisdiction is based on § 1338 even in part, then the Federal Circuit resolves all issues on appeal.

⁶² Similarly, an order vacating the consolidation of patent and non-patent actions requires that any appeal of the non-patent action will be heard by the regional circuit court of appeals. *Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 104 F.3d 83, 85 (5th Cir. 1997) (recognizing that regional circuit court of appeals would hear appeal of antitrust claim where district court vacated order consolidating patent and antitrust actions).

Id.

The Federal Circuit has explicitly distinguished such dismissals *with* prejudice from those without prejudice for purposes of determining its jurisdiction. *See Nilssen*, 203 F.3d at 785. In *Zenith Electrics Corp. v. Exzec, Inc.*, 182 F.3d 1340 (Fed. Cir. 1999), for example, the plaintiff asserted Lanham Act and patent claims, but the parties stipulated to dismissal with prejudice of the patent claims prior to appeal. The Federal Circuit asserted jurisdiction over the district court’s decision regarding the non-patent claims. The court held that a dismissal with prejudice of the patent claims operates as an adjudication on the merits of those claims, which does not divest the court of jurisdiction. *Id.* at 1346.⁶³

The Seventh Circuit appeared to follow a similar line of reasoning in *Unique Concepts, Inc. v. Manual*, 930 F.2d 573 (7th Cir. 1991), where it transferred an appeal of a non-patent, permissive counterclaim to the Federal Circuit despite the fact that the patent infringement claim had been dismissed by the district court. Although the dismissal was voluntary and without prejudice, the district court granted it only on the condition that the plaintiff execute a covenant not to refile the patent claim. Based on the plaintiff’s execution of the covenant not to sue, the district court entered a final judgment covering “all claims and counterclaims.” *Id.* at 574. The Seventh Circuit held that the case remained one based “in part” on the patent statutes on the grounds that the district court’s judgment both awarded defamation damages and dismissed the patent claim. *Id.* at 575.⁶⁴

⁶³ This may not be the case where the patent claims were dismissed without objection and made only a fleeting “transient appearance” in the claim. *See Schwarzkopf Dev. Corp. v. TI-Coating, Inc.*, 800 F.2d 240, 245 (Fed. Cir. 1986) (holding that the “transient appearance” of patent infringement counterclaims, followed by their dismissal without objection, could not provide the basis for Federal Circuit jurisdiction).

⁶⁴ The court did not discuss *Gronholz*, 836 F.2d 515, in which the Federal Circuit held that a plaintiff’s voluntary dismissal of his patent claim without prejudice transformed the

4. Separated Claims under Rule 42(b)

The CAFC has held that separating patent and non-patent claims for trial under Fed. R. Civ. P. 42(b)⁶⁵ is a procedural matter that will not divest the Federal Circuit of jurisdiction over the non-patent claims. *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984) (en banc). In *Atari*, the district court issued a preliminary injunction on Atari's copyright infringement claim and granted Atari's motion under Fed. R. Civ. P. 13(i) and 42(b) to separate the patent count for trial. *Id.* at 1424. Atari's stated intention was to direct JS & A's appeal of the preliminary injunction to the Seventh Circuit, rather than the Federal Circuit. *Id.* at 1425. JS & A nevertheless appealed the preliminary injunction on the copyright claim to the Federal Circuit.

The Federal Circuit held that it had jurisdiction over the non-patent claim, despite the fact that it had been separated from the patent claims, because jurisdiction is determined at the time a

action into one that was no longer "arising under" the patent laws. Unlike *Gronholz*, however, the district court in *Unique Concepts* entered one final judgment on both patent and non-patent claims as opposed to dismissing the patent claims before the final judgment on the non-patent claims. As the Seventh Circuit explained, because § 1295(a)(1) gives the Federal Circuit "exclusive jurisdiction of an appeal from a final decision of a district court," if jurisdiction to enter the final judgment came, in part, from a well-pleaded complaint under § 1338, § 1295(a)(1) directs the appeal to the Federal Circuit. *Unique Concepts*, 930 F.2d at 575. The Seventh Circuit also seemed motivated by practical concerns, stating that "All appeals from a single judgment ought to go to one court, facilitating efficient briefing and decision." *Id.* Moreover, in *Unique Concepts*, the plaintiff signed a covenant not to refile the patent claims although the court did not discuss whether it considered dismissal of the patent claims conditioned on a such a covenant to be, in effect, a dismissal with prejudice.

⁶⁵ A district court may order separate trials of patent and non-patent claims under Fed. R. Civ. P. 42(b), which states:

"The court, in furtherance of convenience or to avoid prejudice, or when separate trials will be conducive to expedition and economy, may order a separate trial of any claim, cross-claim, counterclaim, or third-party claim, or of any separate issue. . . ."

complaint is filed. “The criteria for jurisdiction of the district court over a case are determined at the time the complaint is filed and a subsequent event, such as the present separation order, *that does not alter those criteria*, cannot oust the appellate court of its potential jurisdiction over appeals from final decisions in that case.” *Id.* at 1431-32 (emphasis in original). According to the court, the effect of ordering separate trials under Rule 42(b) was procedural, not substantive, and had no effect on jurisdiction. *Id.* at 1430-31. The court explained that, in rejecting “issue jurisdiction” and opting for “arising under” jurisdiction for the Federal Circuit, Congress intended to “(a) to avoid bifurcation of appeals; (b) to avoid specialization of th[e] court; (c) to avoid forum shopping in non-patent issues of law; and (d) to discourage appropriation by the court of areas of law not assigned to it.” *Id.* at 1435.

The Federal Circuit in *Atari* recognized the possible perception of tension between its holding and the legislative history encouraging district courts to use their authority under the Federal Rules “to ensure the integrity of the jurisdiction of the Federal Court of Appeals” by separating antitrust and patent claims in certain situations.⁶⁶ The court distinguished those portions of the legislative history by stating that they applied *only* to trivial patent claims raised to manipulate appellate jurisdiction. *Id.* at 1434. The court stated that “such claims do not create jurisdiction” in any event. *Id.* at 1434 n.9 (citing *Healy v. Sea Gull Specialty Co.*, 237 U.S. 479 (1915)).

5. Partial Judgments under Rule 54(b)

In *Atari, Inc. v. JS & A Group, Inc.*, 747 F.2d 1422, 1431 (Fed. Cir. 1984) (en banc), the court cited the fact that Atari’s claims would normally lead to one final judgment,

⁶⁶ *See supra* at I.A.- D.

(discussing the legislative history).

notwithstanding the separation order, to support its holding that they therefore remained part of one case arising under the patent laws. This point raises the issue of whether a partial final judgment on non-patent claims under Rule 54(b)⁶⁷ would oust the Federal Circuit of jurisdiction over the non-patent issues when a case originally involves both patent and non-patent claims. The point remains unsettled.

In *Unique Concepts, Inc. v. Manual*, 930 F.2d 573 (7th Cir. 1991), in which the district court entered a single judgment covering patent and non-patent claims, the Seventh Circuit left open the possibility that a partial final judgment of the non-patent claims under Rule 54(b) might have required an appeal to the regional circuit. Although the court did not decide the issue, it stated, “[i]f the district judge had used Fed.R.Civ.P. 54(b) to separate the [state-law] claims from the patent claims, then [plaintiff] would have a better argument. That final decision really would depend wholly on § 1332 [for jurisdiction].” 930 F.2d at 575.

The Ninth Circuit addressed the fact pattern posited in *Unique Concepts*, dismissed patent claims and an appealed partial final judgment on the merits of non-patent claims, in *Denbicare U.S.A. v. Toys “R” Us, Inc.*, 84 F.3d 1143 (9th Cir.), *cert. denied*, 519 U.S. 873 (1996). The Ninth Circuit asserted jurisdiction over the appeal of the non-patent issues. The plaintiff, Denbicare, originally alleged patent, copyright and trademark infringement, unfair competition, breach of contract and tortious bad-faith denial of contract, but subsequently

⁶⁷ Fed. R. Civ. P. 54(b), entitled “Judgment Upon Multiple Claims or Involving Multiple Parties” states:

When more than one claim for relief is presented in an action, whether as a claim, counterclaim, cross-claim, or third-party claim, or when multiple parties are involved, the court may direct the entry of final judgment as to one or more but fewer than all of the claims or parties only upon an express determination that there is no just reason for delay upon an express direction for the entry of judgment.

voluntarily moved to dismiss its patent claims with prejudice. Toys, the defendant, opposed the amendment and amended its answer to add a counterclaim seeking a declaratory judgment that Denbicare's patents were invalid. The district court dismissed the counterclaim on the grounds that Toys lacked a reasonable apprehension of suit. *Id.* at 1146. The trial court eventually entered a partial final judgment under Rule 54(b) against Denbicare on the copyright, trademark, unfair competition and tortious denial of contract claims in order to allow the plaintiff to appeal those rulings. The trial of the remaining contract issues was stayed. *Id.* at 1146-47.

The Ninth Circuit held that it had jurisdiction over the appeal of the non-patent issues. In so holding, the court relied heavily on the legislative history of § 1295, particularly the Senate Judiciary Committee Report, which encouraged judges to use their authority under Rule 54(b) to separate final decisions involving substantial antitrust claims from trivial patent claims. *Id.* at 1148 (quoting S.Rep. No. 97-275 20 (1981), *reprinted in* 1982 U.S.C.C.A.N. 11, 30 (hereinafter "*Senate Report*").⁶⁸ The *Denbicare* court did not find that the patent claim was trivial or manipulatively joined, a point emphasized by the Federal Circuit when it discussed this passage of the legislative history in *Atari*. 747 F.2d at 1434. Nevertheless, it held that the district court's use of Rule 54(b) to separate the nonpatent claims for partial final judgment, and its own assertion of jurisdiction, fit within the scope of the Congress' intent in creating the Federal Circuit.⁶⁹

⁶⁸ See *supra* at I.A. -D. (discussing legislative history).

⁶⁹ Another interpretation of § 1295, proposed by the Seventh Circuit, also arguably supports the Ninth Circuit's holding in *Denbicare*. In *Unique Concepts*, the Seventh Circuit read the language of § 1295 to require an analysis of the source of the district court's jurisdiction to enter the final judgment appealed in determining the appeal route. 930 F.2d at 575. Under this analysis, a district court's jurisdiction to enter a partial final judgment on only non-patent claims does not arise under the patent laws and any appeal would go to the regional circuit. Even if a court were to accept this analysis, however, it is likely to view skeptically any attempt to separate factually related claims and direct

The Federal Circuit has not directly discussed the jurisdictional effect of partial judgments under Rule 54(b), but several statements suggest that it would look to the complaint, not the final judgment, to establish jurisdiction. For instance, as noted above, in *Atari* the court stated that jurisdiction is determined at the time the complaint is filed. 747 F.2d at 1431-32 (emphasis in original); see also *Zenith Elecs. Corp.*, 182 F.3d at 1346 (looking to the complaint, not the final judgment, in analyzing its jurisdiction: “Because the complaint contained patent infringement claims, the district court’s jurisdiction arose under 28 U.S.C. § 1338(a). This established the path of appeal, giving exclusive jurisdiction in this court pursuant to 28 U.S.C. §§ 1292(c) and 1295(a)(1)”)⁷⁰. *But see Holmes*, 122 U.S. at 1896 (Stevens, J., concurring) (“It is important to note the general rule, however, that the jurisdiction of the court of appeals is not ‘fixed’ until the notice of appeal is filed.”).

their appeals to two different appellate courts. See *Nilssen*, 255 F.3d at 414 (“Avoiding claim-splitting (with the waste of judicial resources and the potential for inconsistent appellate decisions) is why § 1295(a)(1) provides that, if jurisdiction is based on § 1338 even in part, then the Federal Circuit resolves all issues on appeal.”); *Unique Concepts*, 30 F.2d at 575 (“Facts intermingle even when jurisdictional bases do not. . . . One court ought to review the entire imbroglio.”). The analysis might be more justifiable and successful when the patent claims are no longer relevant to the case. See, e.g. *Unique Concepts*, 930 F.2d at 575 (patent claims were dismissed with covenant not to refile).

⁷⁰ Similarly, in *Holmes Group Inc. v. Vornado Air Circulation Systems, Inc.*, the district court entered a partial final judgment under Fed. R.Civ. P. 54(b), making the trade dress issue immediately appealable, and stayed the patent issues. No. 99-1499 slip op. (D. Kan. June 12, 2000) (unreported). *Holmes* argued that the Federal Circuit did not have jurisdiction over the appeal, in part, because the judgment appealed pertained only to the trade dress issues. The Federal Circuit did not address the point and the Supreme Court did not grant certiorari on that issue. See 122 S.Ct. 510 (U.S. Nov. 8, 2001) (No. 01-408) (order granting certiorari). The *Holmes* situation, however, is not directly analogous to the *Denbicare* case. In *Holmes*, the patent claims were stayed and remained pending in the district court. In that sense, the district court’s jurisdiction continued to be based in part on section 1338. In contrast, in *Denbicare*, the patent claims had been dismissed from the case, although that dismissal could still be appealed. *Denbicare*, 84 F.3d 1143.

D. Non-Patent Claims that Necessarily Depend upon Resolution of a Substantial Question of Patent Law

The discussion in the previous sections focused on cases in which Federal Circuit jurisdiction over the non-patent issues depended on whether the case included a patent claim under the well-pleaded complaint rule. Even in cases in which there is admittedly no patent claim, however, the Federal Circuit may have jurisdiction under the second prong of the *Christianson* test: whether a “plaintiff’s right to relief necessarily depends on resolution of a substantial question of federal patent law.” *Christianson*, 486 U.S. at 809. The Federal Circuit has stated that it views *Christianson*’s second prong as “lenient.” *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000) (“*Christianson* sets a lenient standard for jurisdiction under 28 U.S.C. §1338(a).”). The consequence of this view is that the Federal Circuit, and perhaps the regional circuits that concur, will give the Federal Circuit *exclusive* jurisdiction over a range of issues related to causes of actions that are not created by federal patent law.

1. Contract Disputes Related To Patents

A long line of cases holds that a patent owner’s claim for breach of a patent license is created by state contract law. Courts have held that such claims do not typically arise under the patent laws even when the existence of contract liability requires resolution of patent issues such as validity and infringement. *See* Donald S. Chisum, *Chisum on Patents: A Treatise on the Law of Patentability, Validity and Infringement* § 21.02[1] (2001) (collecting cases). For instance, in *Ballard Medical Products v. Wright*, 823 F.2d 527, 531 (Fed. Cir. 1987), the Federal Circuit held that a breach of license suit by an exclusive licensee against the licensor did not arise under the patent laws within the meaning of 28 U.S.C. § 1338, and the Federal Circuit had no jurisdiction over the appeal. *See also Schwarzkopf Dev. Corp. v. TI-Coating, Inc.*, 800 F.2d 240, 244 (Fed. Cir. 1986) (“The complaint in the case at bar is for failure to pay royalties due under an existing

patent license agreement. Such a suit has consistently been viewed as one arising out of state contract law, not ‘arising under’ the patent law.”).

The Supreme Court has recognized that a patentee often has the option of pleading a licensing case as either one for breach of contract or one for patent infringement. *Lockett v. Delpark, Inc.*, 270 U.S. 496, 511 (1926). “But when the patentee exercises his choice and bases his action on the contract and seeks remedies there under, he may not give the case a double aspect, so to speak, and make it a patent case conditioned on his securing equitable relief as to the contract.” *Id.* The Federal Circuit has looked to the fact that a complaint alleging breach of a patent license sought infringement damages in concluding that the plaintiff pleaded the case as one for patent infringement. *Kunkel v. Topmaster Int’l, Inc.*, 906 F.2d 693 (Fed. Cir. 1990); *Air Prods. and Chems., Inc. v. Reichhld Chems., Inc.*, 755 F.2d 1559 (Fed. Cir. 1985). *But see Jim Arnold Corp. v. Hydrotech Sys., Inc.*, 109 F.3d 1567 (Fed. Cir.) (patentee seeking revision of assignment did not invoke Federal Circuit jurisdiction where grounds for recession did not implicate any aspect of patent law, even though complaint alleged that defendants infringed patents because assignments were void), *cert. denied sub nom, Baker Hughes, Inc. v. Jim Arnold Corp.*, 522 U.S. 933 (1997).

In two more recent cases, however, courts have held that licensing disputes arise under the patent law, based on *Christianson’s* second prong. In *Scherbatskoy v. Halliburton Co.*, 125 F.3d 288 (5th Cir. 1997), the plaintiffs alleged that Halliburton breached a patent license agreement by failing to pay additional royalties after acquiring a new company, which, plaintiffs alleged, infringed the patents. The Fifth Circuit transferred the case to the Federal Circuit on the grounds that plaintiffs’ case necessarily required resolution of a substantial question of patent law, namely whether the new company infringed the licensed patents. *Id.* at 291. The court cited

Kunkel without discussion of that case or any case holding that a licensing dispute does not arise under the patent laws. *Id.*

Similarly, in *U.S. Valves, Inc. v. Dray*, 190 F.3d 811 (7th Cir. 1999), the Seventh Circuit transferred an appeal concerning breach of a patent license to the Federal Circuit. Dray patented an internal piston valve and exclusively licensed the patent to U.S. Valves. When Dray and U.S. Valves had a falling out, Dray began selling internal piston valves, admittedly covered by the patent, and a second type called “sliding ring valves.” Dray contended that U.S. Valves’ actions breached the license and resulted in termination of the agreement. The district court disagreed and found that Dray’s sale of valves violated the exclusive license. *Id.* at 812. Both parties appealed to the Seventh Circuit, but Dray asked that the case be transferred to the Federal Circuit. Dray argued that a determination of whether his sale of the sliding ring valves violated the agreement required a determination of whether those valves infringed the licensed patents. *Id.* at 812-13. The Seventh Circuit agreed, explaining that “[w]hether Dray breached the exclusivity provision of the license agreement depends on whether he sold valves which infringed on the licensed patents.” *Id.* at 814. Although the Federal Circuit was bound by the law of the case doctrine to accept jurisdiction, it also opined on its ability to decide the case and the court adopted the analysis of the Seventh Circuit. *U.S. Valves, Inc. v. Dray*, 212 F.3d 1368, 1372 (Fed. Cir. 2000).

2. **False Statements Regarding Patent Rights**

In two recent cases, the Federal Circuit asserted jurisdiction over cases in which the cause of action was created by state tort law but which the court determined “necessarily required resolution of a substantial question of patent law” and, therefore, arose under § 1338. These cases present an interesting wrinkle in that § 1338 gives *exclusive* jurisdiction to the federal

district courts. Therefore, the Federal Circuit's holding may oust the state courts' jurisdiction to hear these state law claims.

In *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476 (Fed. Cir. 1993), the Federal Circuit found federal jurisdiction over a state law business disparagement claim. Flowdata stated to Additive's customers, falsely in Additive's view, that it was infringing Flowdata's patent. To establish a business disparagement claim under Texas law, Additive was required to prove the falsity of Flowdata's statement, which in turn required it to prove that it did not infringe the patent. *Id.* at 478. The Federal Circuit held that Additive's claim thus necessarily required resolution of a substantial question of patent law and, therefore, the claim arose under 28 U.S.C. § 1338(a). *Id.*⁷¹

Similarly, in *Hunter Douglas v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed.Cir.1998), the Federal Circuit asserted jurisdiction over another case alleging violation of state tort law. The plaintiff, Hunter Douglas, accused the patentee and its licensees of committing an injurious falsehood by asserting that they held exclusive rights to make and sell products covered by patents. Hunter Douglas contended that the statements were false because the patents were invalid and unenforceable. *Id.* at 1329. Federal patent law clearly did not create this cause of action and so the Federal Circuit examined whether the claim required resolution of a substantial question of patent law.

⁷¹ The court distinguished *American Well Works Co. v. Layne & Bowler Co.* 241 U.S. 257 (1916), in which the Supreme Court held that a state law business disparagement claim based on false accusations of patent infringement arose under state, not federal law. Under the Massachusetts law at issue in that case, a plaintiff could recover for business disparagement without proving the falsity of defendant's accusations of patent infringement. The law required the defendant to prove the truth of its statements, making that truth a defense, rather than part of the plaintiff's case. *Additive Controls*, 986 F.2d at 478-79.

The court held that it did and, therefore, determined that the case arose under the patent laws. The court reasoned that a required element of the state law claim, a falsity, necessarily depended on a question of federal patent law, namely whether the patents at issue were invalid or unenforceable. *Id.* All of the theories on which Hunter Douglas could prevail on this count required resolving these questions of federal patent law. *Id.* The court further concluded that the questions of federal patent law presented, validity and enforceability, were “substantial” enough to raise a “substantial question of patent law” and convey section 1338(a) jurisdiction in the district court and appellate jurisdiction under section 1295. *Id.* at 1329-30.

3. Jurisdiction Over Federal Trade Commission Matters

It is not clear how any “expansion” of Federal Circuit jurisdiction under *Christianson*’s second prong will affect the Commission’s intellectual property-antitrust matters. On the one hand, an argument can be made that, because § 1295(a) only allows the Federal Circuit to hear appeals “from a final decision of a district court,” and because 15 U.S.C. § 45(c) provides that appeals from Commission orders may be taken to the regional circuit courts of appeals, § 1295(a) cannot confer jurisdiction to the CAFC over orders from the Commission.⁷² On the other hand, an argument could be made that the language of § 45(c) does not *compel* the conclusion that the regional circuits have exclusive jurisdiction over appeals from orders of the Commission. Although § 45(c) is written in terms of geography, it does not indicate that such jurisdiction is exclusive of the CAFC; in fact, that provision was enacted prior to the creation of the Federal Circuit. Thus, it is not surprising that § 45(c) confers appellate jurisdiction by reference to the

⁷² See Stempel & Terzaken, *supra* note 54, at 733-34 (concluding that Federal Circuit probably does not have jurisdiction to consider appeals from FTC orders although each of the FTC cases has a counterpart private action pending in federal district court that could be subject to a Federal Circuit appeal).

“circuit where the method of competition or the act or practice in question was used or where such person, partnership, or corporation resides or carries on business.” *Id.*

Even if the Federal Circuit could not consider appeals from Commission orders, the law developed by the court would still have an effect on the Commission’s matters. First, any case which the Commission decides to pursue in a district court may be appealable to the Federal Circuit so long as it meets the test under *Christianson*. Second, the greater the number of antitrust issues that are heard on appeal by the Federal Circuit, the greater the court’s influence as a source of antitrust precedent for regional circuits to rely upon. For example, the Federal Circuit’s influence would be seen in appeals of Commission orders in administrative actions involving patent-antitrust issues.⁷³ Thus, even if the Commission’s matters must be appealed to a regional circuit, it may feel the impact of the Federal Circuit’s developing antitrust jurisprudence.

III. The Development of The Federal Circuit’s Choice Of Law Rules

A. The Federal Circuit’s Decision In *Nobelpharma*

Prior to 1998, the Federal Circuit had steadfastly held that antitrust matters that came to the Court were to be decided according to the law of the relevant regional circuit court.⁷⁴ In a trio

⁷³ For example, see *In the matter of Biovail Corp.*, 011-0094 (Compl. and Consent Decree filed Apr. 23, 2002).

⁷⁴ This is consistent with the choice of law applied to other non-patent issues at the time. *E.g.*, *Payless Shoesource, Inc. v. Reebok Int’l Ltd.*, 998 F.2d 985, 998 (Fed. Cir. 1993) (applying regional circuit law to trademark issue); *Bandag, Inc. v. Al Bolser’s Tire Stores, Inc.*, 750 F.2d 903, 909 (Fed. Cir. 1984) (same); *e.g.*, *Cable Elec. Prods., Inc. v. Genmark, Inc.*, 770 F.2d 1015, 1033 (Fed. Cir. 1985) (applying regional circuit law to preemption issue); *Interpart Corp. v. Italia*, 777 F.2d 678 (Fed. Cir. 1985) (same); *see also, e.g.*, *Atari Games Corp. v. Nintendo of Am., Inc.*, 897 F.2d 1572, 1575 (Fed. Cir. 1990) (Federal Circuit applied Ninth Circuit law to determine elements of a request for a preliminary injunction); *Atari Corp v. Seagate Tech.*, 847 F.2d 826 (Fed. Cir. 1988) (applying regional circuit law to issue regarding disqualification of an attorney); *Molins PLC v. Quigg*, 837 F.2d 1064, 1066 (Fed. Cir. 1988) (applying the law of the D.C. Circuit on issues related to the ripeness doctrine); *Sun Studs, Inc. v. Applied Theory Assoc., Inc.*, 772 F.2d 1557, 1561, 1563 (Fed. Cir. 1985) (applying Ninth Circuit law in determining the invalidity of a settlement agreement and in determining the standards governing

of cases -- *Atari, Inc. v. J.S. & A. Group, Inc.*, 747 F.2d 1422 (Fed. Cir. 1984), *Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985), and *Cygnus Therapeutic Systems v. ALZA Corp.*, 92 F.3d 1153 (Fed. Cir. 1996) -- the Federal Circuit stated that "[w]e must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review." 781 F.2d at 875.

However, years after the court was created, in March 1998, the Federal Circuit overruled its prior decisions and held that it would apply its own law, not circuit law, when antitrust claims were based on allegations that conduct in the procurement or enforcement of a patent is sufficient to strip a patentee of "its immunity from the antitrust laws."⁷⁵ In *Nobelpharma AB v. Implant Innovations, Inc.*, 141 F. 3d 1059 (Fed. Cir. 1998), the Federal Circuit, in an opinion by Judge Lourie, ruled *en banc* that Federal Circuit law controlled an antitrust counterclaim based upon the Supreme Court's decision in *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*⁷⁶

[A]n antitrust claim premised on stripping a patentee of its immunity from the antitrust laws is typically raised as a counterclaim by a defendant in a patent infringement suit. . . . Because most cases involving these issues will therefore be

disqualification of counsel); *Panduit Corp. v. All States Plastic Mfg.*, 744 F.2d 1564, 1575 (Fed. Cir. 1984), (Federal Circuit should apply regional circuit law to all procedural issues not unique to patent cases), *overruled in part on other grounds by Richardson-Merrell, Inc. v. Koller*, 472 U.S. 424, 432 (1985). *But see Viam Corp. v. Iowa Export-Import Trading Co.*, 84 F.3d 424, 428 (Fed. Cir. 1996) (applying Federal Circuit law to questions of personal jurisdiction); *Akro Corp. v. Luker*, 45 F.3d 1541, 1543 (Fed. Cir.), *cert. denied*, 526 U.S. 1112 (1995) (same).

⁷⁵ The Federal Circuit's choice of words in this regard is interesting. The reference to a patentee's "immunity from the antitrust laws" could be interpreted as reflecting a particular perspective on the relationship between patent law and antitrust principles.

⁷⁶ 382 U.S. 172 (1965). In *Walker Process*, the Supreme Court held that enforcement of a patent procured by fraud on the Patent Office may violate Section 2 of the Sherman Act, provided all other elements to establish a Section 2 monopolization charge are proved. *Id.* at 177.

appealed to this court, we conclude that we should decide these issues as a matter of Federal Circuit law, rather than rely on various regional precedents.

Id. at 1068.

The Federal Circuit's rationale was fairly simple and was based on its charter to provide uniformity in the law applied to patent issues:

We arrive at this conclusion because we are in the best position to create a uniform body of federal law on this subject and thereby avoid the 'danger' of confusion [that] might be enhanced if this court were to embark on an effort to interpret the laws of the regional circuits. . . . Accordingly, we hereby change our precedent and hold that whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law.

Id. The court, however, did not go as far as it might have in *Nobelpharma*. First, its new rule was limited to cases that were based on alleged misconduct in the procurement or enforcement of a patent (and did not cover other types of conduct, such as the refusal to license -- as will be discussed below, that came later). The court also limited the scope of its new rule, explaining that it would "continue to apply the law of the appropriate regional circuit to issues involving other elements of antitrust law such as relevant market, market power, damages, etc., as those issues are not unique to patent law" *Id.*

In *Nobelpharma*, the court opened the door to the creation of a new body of Federal Circuit antitrust law. To analyze the impact of this departure from the court's prior precedent on antitrust law, it is necessary to review how the court reached this point and where it has gone since *Nobelpharma*. The following sections review the development of the Federal Circuit's choice of law principles prior to the *Nobelpharma* decision and how that law has developed since the decision. A review of these cases is interesting not only from the perspective of

understanding the Federal Circuit's views on choice of law issues, but from the perspective of understanding the court's substantive antitrust jurisprudence as well.

B. The Federal Circuit's Approach to Antitrust Issues Prior to *Nobelpharma*

A few points can be noted from a review of the Federal Circuit's pre-*Nobelpharma* case law that bear on the significance of the court's decision to develop its own body of antitrust law.

- First, even before *Nobelpharma*, while the Federal Circuit was purporting to apply regional circuit law on antitrust issues, the court was developing, articulating and applying its own views on the proper relationship between the antitrust laws and the patent laws. The court, for instance, emphasized the importance of patent rights and expressed a desire to minimize the use of antitrust law to "thwart" efforts to enforce those rights. *E.g., Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 876-77 (Fed. Cir. 1985) ("[T]he treble damage threat of antitrust liability should not be used to thwart good faith efforts at patent enforcement") *overruled in part by Nobelpharma AB v. Implant Innovations, Inc.*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc).
- Second, the Federal Circuit had opportunities even before *Nobelpharma* to "make law" on antitrust issues in cases in which there was no controlling authority in the regional circuit. In such cases, the court looked to the law in other circuits, and its own precedents, to support its holdings.
- Third, with rare exception, the Federal Circuit typically held against the party asserting an antitrust claim. It is not clear, however, whether this fact says much about the court's view of antitrust principles or is only an indication of the weakness of the antitrust claims involved.

1. The Federal Circuit's Developing Views On The Proper Relationship Between The Antitrust Laws And Patent Rights

One of the earliest cases in which the Federal Circuit considered an antitrust issue was *American Hoist & Derrick Co. v. Sowa & Sons, Inc.*, 725 F.2d 1350 (Fed. Cir. 1984), where the court -- applying Ninth Circuit law -- considered, among other things, the antitrust claimant's argument that defining a "relevant market is not a necessary element of a Section 2 Sherman Act violation under established Ninth Circuit law." *Id.* at 1365. The Federal Circuit flatly disagreed and applied Ninth Circuit precedent holding that proof of a relevant market is required to establish a violation of Section 2 of the Sherman Act based on the enforcement of a patent. *Id.* at

1366 (noting that “the Ninth Circuit itself has acknowledged that proof of relevant market is essential” in proving a Sherman Act violation).⁷⁷ In addition, the Federal Circuit relied on the Supreme Court’s holding in *Walker Process* that in a case involving alleged monopolization or attempted monopolization under Section 2 of the Sherman Act, it is “necessary to appraise the exclusionary power of the illegal patent in terms of the relevant market for the product involved.” *Id.* (citing *Walker Process*, 382 U.S. at 177).

From an antitrust perspective, there is nothing particularly novel about the *American Hoist* decision. It is in accord with the law of the Ninth Circuit, and many others, at the time. In its opinion, however, the Federal Circuit took the opportunity to express its views on the relationship between the antitrust laws and patent rights in a manner that could be interpreted as favoring the protection of patent rights:

The patent system, which antedated the Sherman Act by a century, is not an “exception” to the antitrust laws, and patent rights are not *legal monopolies* in the antitrust sense of that word. Accordingly, if a patent is held to have been obtained illegally, it is not properly said, *ipso facto*, that it was all along an *illegal monopoly* and, thus, that its procurement and attempted enforcement was a *per se* violation of the antitrust laws. A holding that monopoly analysis should end in favor of liability on a determination of fraud, without more, would signal a fundamental misunderstanding of the substance and purposes of both patent and the antitrust laws.

⁷⁷ The Federal Circuit, citing *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir.), *cert. denied*, 377 U.S. 993 (1964) acknowledged that there was Ninth Circuit authority that had been cited for the proposition that “proof of relevant market is dispensable in ‘attempt’ cases.” *Am. Hoist*, 725 F.2d at 1366. The court observed, however, that *Lessig* “was decided prior to *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*,” and relied on post-*Walker Process* decisions in which, according to the Federal Circuit, “the Ninth Circuit itself [] acknowledged that proof of relevant market is essential.” *Id.* at 1366-67. The post-*Walker Process* case law relied upon by the Federal Circuit involved claims based on the alleged fraudulent procurement or bad faith enforcement of a patent. Thus, the Federal Circuit was plainly of the view that, as of *American Hoist*, the Ninth Circuit’s decision in *Lessig* was not good law at least with respect to cases based on the alleged fraudulent procurement or bad faith enforcement of a patent.

Am. Hoist, 725 F.2d at 1367; see also *The Antitrust Counterattack in Patent Infringement Litigation*, Antitrust Practice Handbook Series, at 206 (1994). The Federal Circuit also held that specific intent, which is a higher standard than gross negligence or recklessness, is an “indispensable element” in an attempt to monopolize claim based on fraud. *Am. Hoist*, 725 F.2d at 1368. At the very least, it was clear from the *American Hoist* case that, consistent with a view emphasizing respect for the patent system, the Federal Circuit would not pass lightly over an antitrust-claimant’s burden of proving each element of its claim simply because the patent-holder obtained its patent by fraud.

Soon after *American Hoist*, the Federal Circuit took another opportunity to express its views on the relationship between antitrust and patents in *Loctite*. That case involved, among other things, the Federal Circuit’s review of the dismissal of a counterclaim alleging bad faith enforcement of a patent based on the patentee’s alleged knowledge that the defendant did not infringe the relevant patent. In the context of holding that a “clear and convincing evidence standard” ought to apply to an antitrust claim based on allegations of bad faith enforcement, the court emphasized in dicta the merits of the patent system, noting that it is rooted in the Constitution and serves the same underlying goal as the antitrust law -- to promote competition:

The patent system, which is rooted in the United States Constitution (Art. I, § 8, cl. 8), serves a very positive function in our system of competition, i.e., “the encouragement of investment based risk.” By so doing, it “encourages innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits.” In that sense, therefore, and because the underlying goal of the antitrust laws is to promote competition ... the patent and antitrust laws are complementary. Consequently, the treble damage threat of antitrust liability should not be used to thwart good faith efforts at patent enforcement.

Id. at 876-77 (citations omitted).

In *Atari Games Corp. v. Nintendo of America*, 897 F.2d 1572 (Fed. Cir. 1990), on appeal from the Northern District of California, the Federal Circuit reviewed the district court's entry of a preliminary injunction prohibiting Nintendo from filing contributory infringement suits against Atari's customers, retailers, distributors and dealers. *Id.* at 1574. The Federal Circuit expressed its view that a preliminary injunction takes on "special significance" when it involves patent rights and antitrust violations because an injunction granted without an adequate factual basis can offend the public policies underlying both the patent and antitrust laws. *Id.* at 1576-77. In discussing the interplay between patent rights and antitrust law, the Federal Circuit referred to a hodgepodge of Ninth Circuit law, other regional circuit law, its own case law, and Supreme Court precedent. *Id.* at 1576-78. Relying on its earlier decision in *Loctite*, the Federal Circuit stated that the patent laws and antitrust laws are complementary since both are aimed at encouraging innovation, industry, and competition. *Id.* at 1576.

The Federal Circuit held, however, that a patent holder is not insulated from antitrust laws merely because it possesses a patent. *Id.* (citing *United States v. Line Material Co.*, 333 U.S. 287, 308 (1948); *Miller Insituform v. Insituform of N.A., Inc.*, 830 F.2d 606, 608 (6th Cir. 1987), *cert. denied*, 484 U.S. 1064 (1988); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981)). In language that seems to foreshadow the later controversial dicta in *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000), the court identified four situations in which patent owners may incur antitrust liability: (i) for enforcement of a patent known to be obtained through fraud (citing *Walker Process*, 382 U.S. 172), (ii) for enforcement of a patent known to be invalid (citing *Handguards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980)), (iii) where a patent license compels the purchase of unpatented goods (citing *Morton Salt Co. v. G.S. Suppiger Co.*, 314 U.S. 488 (1942)), or (iv) where there is an overall scheme to use

the patent to violate antitrust laws (citing *Kobe v. Dempsey Pump Co.*, 198 F.2d 416 (10th Cir.), *cert. denied*, 244 U.S. 837 (1952)). *Id.* at 1567-77.

In *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997), the Federal Circuit again appeared to express a preference for the enforcement of patent rights over antitrust law. In that case, the plaintiff alleged that the defendant infringed its patent and the defendant counterclaimed by arguing patent misuse and antitrust violations. *Id.* at 862. In two separate decisions, the district court (the Western District of Virginia) held that the defendant infringed the patent owned by the plaintiff, and that the plaintiff engaged in patent misuse and violated the antitrust laws. *Id.* (citing *Virginia Panel Corp. v. MAC Panel Co.*, 887 F. Supp. 880 (W.D. Va. 1995) and *Virginia Panel Corp. v. MAC Panel Co.*, Civ. A. No. 93-0006-H, 1996 WL 335381 (W.D. Va. May 29, 1996)).

In deciding to apply Fourth Circuit law to the antitrust claim in *Virginia Panel*, the Federal Circuit reiterated that “[w]hen reviewing a district court’s judgment involving federal antitrust law, we apply the law of the regional circuit in which that district court sits.” *Id.* at 872. To show an antitrust violation, Fourth Circuit law required a causal connection between the alleged antitrust violation and the damages claimed. *Id.* (citing *Metrix Warehouse, Inc. v. Daimler-Benz Aktiengesellschaft*, 828 F.2d 1033, 1043-44 (4th Cir.), *cert. denied*, 486 U.S. 1017 (1988)). It nonetheless could be argued that Judge Lourie’s opinion for the panel again stressed an apparent preference for patent rights over antitrust law when it stated:

The antitrust laws do not preclude patentees from putting suspected infringers on notice of suspected infringement. . . . Rather, they are designed to promote competition to the advantage of consumers, not for the protection of competitors. . . . Thus, a patentee may lawfully police a market that is effectively defined by its patent. Similarly, the antitrust laws are not designed to penalize an individual who lawfully obtains a government procurement contract, even if the award of that contract dramatically and necessarily altered a two-supplier market. While the district court and the jury viewed [plaintiff’s]

aggressive conduct as anti-competitive and as the cause of [defendant's] market losses, [plaintiff's] enforcement of the patent rights was not unlawful.

Id. at 873-74 (citations and footnote omitted). The Federal Circuit reversed the district court's finding of an antitrust violation under Section 2 of the Sherman Act, holding that the evidence did not even support a patent misuse claim and therefore could not amount to an antitrust violation.

Id. at 873.

Thus, prior to its decision in *Nobelpharma*, the Federal Circuit expressed views regarding the overarching relationship between antitrust principles and patent rights. Moreover, although the court was bound by its own law to apply the law of the regional circuits to antitrust issues, those views must have necessarily informed its interpretation and application of regional circuit law. Indeed, prior to *Nobelpharma*, the Federal Circuit had many opportunities to give effect to its views on the proper role of antitrust law in circumscribing patent rights in cases, like those discussed below, in which there was an absence of clear regional circuit law on point.

2. **The Federal Circuit Had The Opportunity To “Make” Antitrust Law Even Prior To *Nobelpharma***

In many, if not most, of the pre-*Nobelpharma* cases dealing with antitrust or misuse issues, the Federal Circuit had some discretion in crafting the appropriate legal rule because there was no clear authority in the regional circuit (although in some of these cases, the Federal Circuit simply made no mention at all of regional circuit law) or because they involved a patent misuse defense. Thus, even prior to *Nobelpharma*, the court had a fair degree of leeway to give effect to its views on patent-antitrust issues.

a. **Pre-*Nobelpharma* Cases in which No Clear Regional Circuit Law Existed and/or in which the Federal Circuit Applied Its Own Precedent**

One of the first examples of the Federal Circuit's discretion in ruling on antitrust issues is its decision in *Loctite Corporation v. Ultraseal Ltd.*, 781 F.2d 861 (Fed. Cir. 1985). That case

involved, among other things, the Federal Circuit’s review of the dismissal of a counterclaim alleging bad faith enforcement of a patent based on the patentee’s alleged knowledge that the defendant did not infringe the relevant patent. On the choice of law issue, the Federal Circuit held that it must “approach a federal antitrust claim as would a court of appeals in the circuit of the district whose judgment we review.” *Loctite Corp.*, 781 F.2d at 875. Consequently, the court stated that Seventh Circuit antitrust law would apply and that it would look to applicable law from other regional circuits for guidance especially in unexplored areas of the law. *Id.* at 875.

On one of the key issues in the appeal -- the district court’s holding that the defendant had to prove bad faith enforcement by “clear and convincing” evidence -- there was no clear Seventh Circuit authority. The district court had relied on the Ninth Circuit’s decision in *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979), applying a clear and convincing evidence standard to allegations of bad faith enforcement based on the patentee’s alleged knowledge that the patents were invalid. *Id.* at 876. In holding in *Loctite* that “clear and convincing” was the appropriate standard for a case alleging bad faith allegations of infringement, the Federal Circuit also looked to the Ninth Circuit’s decision in *Handgards*, reasoning that because a patentee’s infringement action is presumptively in good faith, that presumption can only be rebutted by a showing of clear and convincing evidence.⁷⁸ Moreover, the court, as did the Ninth Circuit, reasoned that a “preponderance of the evidence” standard would chill legitimate patent enforcement suits because of the fear of treble damage awards. *Id.* According to the Federal Circuit, the Seventh Circuit would similarly decline to apply the preponderance of the

⁷⁸ The *Handgards* decision was not directly on point. The *Handgards* court’s use of the clear and convincing standard was based in part on the presumption of validity of a patent that is expressly within the patent statute. The question in *Loctite* was whether the patentee had a good faith belief that the patent was infringed, not that it might have been invalid. No statutory presumption applies to the patentee’s belief that the patent was infringed.

evidence standard in this context. *Id.* (noting “[w]e decline [to apply the preponderance of the evidence standard advocated by the defendant], and more importantly, we believe the Court of Appeals for the Seventh Circuit would decline to do so.”).

Another early example of the Federal Circuit’s enunciating antitrust rules can be seen in the development of the law on whether inequitable conduct in the prosecution of a patent could satisfy the fraud element of a *Walker Process* claim. In the first of a line of cases on this issue, *Argus Chemical Corp. v. Fibre Glass-Evercoat Co.*, 812 F.2d 1381 (Fed. Cir. 1987), the court appeared to adhere to the law of the relevant regional circuit (the Ninth), citing to a number of Ninth Circuit precedents in holding that inequitable conduct cannot satisfy the *Walker Process* requirement for “intentional fraud” on the Patent Office. *Id.* at 1384-85 (holding that “[t]here is no reason to believe that the Ninth Circuit would depart from [the intentional fraud] standard and sanction a *Walker Process* claim based upon inequitable conduct”).⁷⁹

However, in its next decision on this very same issue, *Allen Archery, Inc. v. Browning Manufacturing Co.*, 819 F.2d 1087 (Fed. Cir. 1987), the Federal Circuit appeared to ignore the application of regional circuit law (the Tenth) and rely only on its opinion in *Argus Chemical*. One of the defendant’s counterclaims in *Allen Archery* (which had been rejected by the district court) involved allegations that the plaintiff violated Section 2 of the Sherman Act by obtaining

⁷⁹ In *Argus*, the Federal Circuit also rejected the antitrust claimant’s additional antitrust theory that the patentee monopolized and attempted to monopolize the relevant market by bringing an infringement suit in bad faith. 812 F.2d at 1385. Applying the regional circuit law of the *Handgards* decisions to this case, the Federal Circuit provided that “to prevail in an antitrust claim based upon enforcement of an invalid or unenforceable patent, the litigant must establish that the patentee acted in bad faith in enforcing the patent because he knew that the patent was invalid.” *Id.* at 1386 (citing *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986 (1979), and *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (1984)). The Federal Circuit held that the antitrust claimant had not made a sufficient evidentiary showing of bad faith. *Id.* at 1386. The court noted that the only evidence offered to support the bad faith claim was a letter from another competitor that the patents were invalid because of an alleged prior sale. *Id.* The court held that such a letter by an accused infringer “cannot be turned into evidence that the patentee knew that the patent was invalid when it instituted an infringement suit.” *Id.*

the relevant patent through inequitable conduct. *Id.* at 1098. In rejecting this claim, the Federal Circuit first found that the proofs did not demonstrate that the plaintiff engaged in inequitable conduct. It further stated that, in any event, under its decision in *Argus Chemical*, an allegation of inequitable conduct does not establish a violation of the Sherman Act. In support of this latter conclusion, the Federal Circuit provided no substantive analysis. Instead, it simply cited its previous decision in *Argus Chemical*, a case decided under Ninth Circuit law, without discussing or attempting to apply Tenth Circuit law. Judge Friedman, who wrote the opinions in both *Allen Archery* and *Argus Chemical*, did not mention this point and seems to have treated *Argus Chemical* as controlling rather than searching for relevant regional circuit law on this antitrust issue.⁸⁰

The Federal Circuit in *Allen Archery* also affirmed the district court's finding that the patentee did not engage in inequitable conduct. Again applying Federal Circuit -- without mentioning Tenth Circuit -- precedent, the court found that the antitrust claimant failed to prove by clear and convincing evidence that the patentee had misrepresented or failed to disclose material information to the PTO in the prosecution of the patent, and failed to prove that any such misrepresentation was intentional. *Id.* at 1094-95 (citing *N.V. Akzo, Aramide Maatschapij v. E.I. du Pont de Nemours & Co.*, 810 F.2d 1148, 1153 (Fed. Cir. 1987), *J.P. Stevens & Co. v. Lex Tex, Ltd.*, 747 F.2d 1553, 1559-60 (Fed. Cir. 1984), *cert. denied*, 474 U.S. 822 (1985), *Orthopedic Equip. Co. v. All Orthopedic Appliances*, 707 F.2d 1376, 1383 (Fed. Cir. 1983)).

⁸⁰ There were other occasions prior to *Nobelpharma* in which the Federal Circuit did not rely upon regional circuit law. For example, in *Indium Corporation of America v. Semi-Alloys, Inc.*, 781 F.2d 879 (Fed. Cir. 1985), *cert. denied*, 479 U.S. 820 (1986), the Federal Circuit made no reference to any regional circuit law in deciding an issue related to antitrust standing. Instead, the court looked only to Supreme Court precedent in holding that an antitrust claimant who alleged that the patent holder procured its patents by fraud lacked standing because it failed to present evidence that it was prepared to enter the market or that the patentee enforced the relevant patents against it. *Id.* at 882.

The Federal Circuit once again appeared to rely on its own precedents in connection with a *Walker Process* claim in *FMC Corp. v. Manitowoc Co.* 835 F.2d 1411 (Fed. Cir. 1987). In that case, the District Court for the Northern District of Illinois upheld the validity of a patent for heavy lift cranes, found that the patent was not infringed, and found no inequitable conduct nor any antitrust violations. *Id.* at 1412. The antitrust claimant appealed the district court's judgment with respect to its *Walker Process* claim and its general Sherman Act Section 2 claim. In discussing the *Walker Process* claim, the Federal Circuit found that since the antitrust claimant did not establish inequitable conduct on the patentee's part, it had failed to establish its greater burden of proving fraud under *Walker Process*. In so holding, the court relied on its earlier decisions regarding the distinction between inequitable conduct and the type of fraud required in a *Walker Process* claim, including those in *Argus Chemical*, 812 F.2d at 1384-85 and *American Hoist*, 725 F.2d at 1368. *Id.* at 1417-18.

Similarly, in *Genentech, Inc. v. Eli Lilly & Co.* 998 F.2d 931 (Fed. Cir. 1993), the Federal Circuit did not discuss regional circuit law in commenting on the antitrust consequences of an exclusive licensing arrangement. In that case, Genentech brought suit against the Regents of the University of California (the University) and Eli Lilly & Co. in the District Court for the Southern District of Indiana claiming, among other things, that the defendants violated Sections 1 and 2 of the Sherman Act when they conspired, through their licensing activities, to exclude Genentech from the human growth hormone market. *Id.* at 948. With respect to the defendants' licensing arrangements, the Federal Circuit broadly held that "Genentech has not pled facts which if proved constitute violation of the antitrust laws." *Id.* at 949. The court reasoned that a grant of an exclusive license is a lawful right to exclude under the Patent Act, and the University's right to select its licensees is not a restraint of trade. *Id.* at 949 ("The patenting and licensing of the results of University research is not a violation of antitrust principles, and the grant of an exclusive

license is a lawful incident of the right to exclude provided by the Patent Act. The University's right to select its licensees, the decision to grant exclusive or non-exclusive licenses or to sue for infringement, and the pursuit of optimum royalty income, are not of themselves acts in restraint of trade.”). In so holding and affirming the district court’s dismissal of the antitrust claim pursuant to Rule 12(b)(6), the Federal Circuit did not mention regional circuit law at all. *Id.* at 949.⁸¹

Again, in *Carroll Touch, Inc. v. Electro Mechanical Systems, Inc.*, 15 F.3d 1573 (Fed. Cir. 1993), the Federal Circuit similarly did not consider the substantive antitrust law of the regional circuit in an appeal on an antitrust issue. In that case, the Federal Circuit considered, *inter alia*, an appeal from a dismissal of an antitrust counterclaim based on allegations that the patent infringement claim constituted “sham litigation” such that the patent holder’s conduct violated the antitrust laws. The district court granted summary judgment to the patent holder on this issue, finding that the antitrust claimant failed to establish a genuine issue of material fact. In discussing whether the sham litigation exception applied, such that there could be antitrust liability, the Federal Circuit cited its decision in *Loctite*, and stated that “[w]e must approach a federal antitrust claim as would a court of appeals in the circuit of the district court whose judgment we review.” 15 F.3d at 1583.

Although the court stated that it would look to Seventh Circuit law in deciding whether the antitrust counterclaim was properly dismissed, its analysis of the substantive antitrust issue did not rest upon principles developed in the Seventh Circuit. Rather, it referred to Seventh Circuit cases setting forth standard summary judgment principles, and then concluded, based on Supreme Court antitrust precedent, that the antitrust claimant failed to satisfy the objective prong

⁸¹ The court also held that the sovereign immunity doctrine did not bar Genentech’s state law counterclaims and defenses and other antitrust counterclaims and defenses (to the extent not based on the licensing activities). *Genentech*, 998 F.2d at 947-48.

of the two-part definition of “sham litigation.” The Court’s reference to substantive antitrust law appeared in a footnote, where it cited its decision in *Loctite* in support of its conclusion that it was not necessary to consider the patent holder’s subjective intent in instituting the patent suit. *Id.* at 1583 n.10.

The Federal Circuit clarified its pre-*Nobelpharma* approach to regional circuit antitrust law in *Nobelpharma AB v. Implant Innovations, Inc.*, 129 F.3d 1463 (Fed. Cir. 1997) (“*Nobelpharma I*”), *withdrawn*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc), the predecessor to the 1998 *en banc* decision. As an assignee of a dental implant patent, Nobelpharma brought a patent infringement suit in the district court against Implant Innovations, which counterclaimed by alleging antitrust violations by Nobelpharma. After a jury returned a verdict that Nobelpharma violated antitrust laws by bringing suit against Implant Innovations, Nobelpharma sought a judgment as a matter of law or in the alternative a new trial under Federal Rule of Civil Procedure 50(b). The district court rejected both motions. *Id.* at 1469. The Federal Circuit held that the District Court erred in denying the motion for judgment as a matter of law. *Id.* at 1470.

In reaching its conclusion concerning the antitrust claim, the Federal Circuit explained that it would apply Seventh Circuit law if the law was clear concerning when a patentee may incur antitrust liability for enforcing its patent. *Id.* at 1470. Absent such clear law, however, the court turned to Supreme Court precedent and other regional circuit law to determine how the Seventh Circuit would decide the issue. *Id.* The Federal Circuit concluded that there was no evidence to prove that the “patent was obtained by fraud”, *i.e.* knowingly false statements, required under a *Walker Process* counterclaim. *Id.* at 1472. The Federal Circuit again stated that evidence of inequitable conduct does not necessarily support a claim of antitrust liability under *Walker Process*. *Id.* at 1473. Relying on what it determined to be regional circuit law, though citing cases from several circuits, the Federal Circuit panel concluded that failure to disclose is

not fraud under *Walker Process*, since in the panel’s view there was a clear distinction between omissions, which would not constitute fraud under *Walker Process*, and affirmative misrepresentations, which would constitute fraud. *Id.* at 1472-73.

In addition, the court found that Nobelpharma’s infringement suit was not objectively baseless and therefore not a sham. *Id.* at 1474. In a part of the opinion later withdrawn, the panel stated that inequitable conduct could never support a bad faith litigation claim because inequitable conduct requires a balancing of materiality and intent, the outcome of which could not be known conclusively prior to trial.⁸² Although it purported to apply regional circuit law, one could argue that the court’s decision again was influenced by its views of the relationship between antitrust law and patent rights. Indeed, the court stated that imposing antitrust liability on Nobelpharma would “thwart its entitlement to test the validity and scope of its patent.” *Id.* at 1474.

b. The Federal Circuit’s Application of Its Law in Cases Involving the Patent Misuse Defense

One area in which the Federal Circuit, even prior to *Nobelpharma*, ruled on antitrust-related issues without necessarily relying on regional circuit law is the application of the patent misuse defense. Although the Federal Circuit has not specifically discussed choice of law issues in patent misuse cases, it has cited Supreme Court cases and cases from various circuits but has not purported to follow the law of the regional circuit involved. From its method of analysis in these cases, it appears that the Federal Circuit has assumed its law would apply, as the patent misuse issue is bound up with enforcement of patent rights. As discussed below, one could argue that application of the patent misuse doctrine is one area in which the Federal Circuit has

⁸² See James B. Kobak, Jr., *The Doctrine That Will Not Die: Nobelpharma, Walker Process, and the Patent-Antitrust Counterclaim*, 13 *Antitrust* 47, 48 (1998).

curtailed the use of antitrust principles which might otherwise limit the manner in which a patent holder can use its intellectual property.

Patent misuse is an affirmative defense raised by an alleged infringer to avoid liability in an infringement action, and has traditionally been asserted in two situations: (i) where a patent has allegedly been used to violate the antitrust laws, and (ii) where a patentee has allegedly attempted to use the patent in a manner designed to extend its scope.⁸³ The Federal Circuit, however, has tended to merge patent misuse and antitrust principles, virtually limiting misuse to situations in which the patent has been used to violate the antitrust laws.

The Federal Circuit first began to equate misuse with an antitrust violation in *Windsurfing International, Inc. v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir.), *cert denied*, 477 U.S. 905 (1986). In that case, the district court found that Windsurfing had engaged in patent misuse by inserting a provision in the patent license agreement that required the licensee to acknowledge the validity of registered trademarks and to avoid their use. *Id.* at 1001. The Federal Circuit, however, reversed the District Court's decision, holding that to sustain a misuse defense based on conduct not held to be per se anticompetitive by the Supreme Court, "a factual determination must reveal that the overall effect of the license tends to restrain competition unlawfully in an appropriately defined relevant market." *Id.* at 1001-02.

The Federal Circuit went on to observe that a license agreement provision which required the licensee to acknowledge the validity of registered trademarks and to avoid their use does not unlawfully restrain competition in an appropriately defined relevant market and therefore does not constitute patent misuse. *Id.* at 1002. In fact, the Federal Circuit went so far as to state that

⁸³. *The Antitrust Counterattack in Patent Infringement Litigation*, Antitrust Practice Handbook Series, at 48-49 (1994); George Gordon & Robert J. Hoerner, *Overview and Historical Development of the Misuse Doctrine*, ABA Section of Antitrust Law, *Intellectual Property Misuse: Licensing and Litigation*, at 1 (2000) [hereinafter "Licensing and Litigation"].

“[r]ecent economic analysis questions the rationale behind holding any licensing practice per se anticompetitive.” *Id.* at 1002 n.9 (citing *USM Corp. v. SPS Techn., Inc.*, 694 F.2d 505, 510-14 (7th Cir. 1982), *cert denied*, 462 U.S. 1107 (1983)). As one commentator has observed, the Federal Circuit’s holding in *Windsurfing* “clearly takes issue with Supreme Court precedent, and suggests that no licensing practice should be deemed misuse unless it violates an antitrust-type rule of reason.” James B. Kobak, Jr., *The Federal Circuit as a Competition Law Court*, J. of the Patent and Trademark Off. Soc’y 527, 544 (Aug. 2001); *see also Licensing and Litigation, supra*, at 23.

In *Senza-Gel Corp. v. Seiffhart*, 803 F.2d 661 (Fed. Cir. 1986), the Federal Circuit retreated slightly from its position in *Windsurfing*. Senza-Gel required the user of its process patent to lease its “macerator” machine as well. The district court found that Senza-Gel’s tying practice was misuse but certified for appeal the elements of misuse in a tying context. *Id.* at 664. In its determination of the elements of misuse in a tying context, the district court conspicuously left out any requirement of market power in the tying product. *See Licensing and Litigation, supra* at 24.

On interlocutory appeal, the Federal Circuit stated with some apparent reluctance that Supreme Court precedent required the court to recognize some *per se* categories of misuse:

Commentators and courts have questioned the rationale appearing in Supreme Court opinions dealing with misuse in view of recent economic theory and Supreme Court decisions in non-misuse contexts. We are bound, however, to adhere to existing Supreme Court guidance in the area until otherwise directed by Congress or by the Supreme Court.

Senza-Gel Corp., 803 F.2d at 665 n.5. The Federal Circuit went on to discuss the interplay of patent misuse and antitrust law by providing that certain conduct “may constitute patent misuse without rising to the level of an antitrust violation.” *Id.* at 668 (citing *Zenith Radio Corp. v. Hazeltine Research, Inc.*, 395 U.S. 100, 140 (1969)). The court stated:

The law of patent misuse in licensing need not look to consumer demand (which may be non-existent) but need look only to the nature of the claimed invention as the basis for determining whether a product is a necessary concomitant of the invention or an entirely separate product. The law of antitrust violation, tailored for situations that may or may not involve a patent, looks to consumer demand test for determining product separability.

Id. at 670 n.14. In rendering its decision to affirm summary judgment on the patent misuse defense, the Federal Circuit held that tying the patented process to the lease of an unpatented machine constituted misuse and thereby rendered the patent unenforceable. *Id.* at 668-69.

At the same time, the Federal Circuit affirmed the district court's denial of summary judgment with respect to the antitrust claim. *Id.* at 679. Relying on Ninth Circuit and Supreme Court precedent, the Federal Circuit held that the issue of whether there are separate products for purposes of a tying claim centered around the character of the demand for the items. *Id.* at 670 (citing *Jefferson Parish Hosp. Dist. No.2 v. Hyde*, 466 U.S. 2, 19 (1984) (stating that "the answer to the question whether two products are involved turns not on the functional relationship between them, but rather on the character of the demand for the two items")); *Drinkwine v. Federated Publ'ns, Inc.*, 780 F.2d 735, 741 (9th Cir.), *cert. denied*, 475 U.S. 1087 (1986) (noting that separability is "a question of character of demand"); *Digidyne Corp. v. Data Gen. Corp.*, 734 F.2d 1336, 1339 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985) (noting that separability is established by demand for tied product). Thus, the court held that the separate product analysis for misuse purposes is distinct from the separate product analysis for antitrust purposes, that latter requiring an examination of "consumer behavior (market demand)." *Id.* at 670.

The Federal Circuit returned to the *Windsurfing* approach in *Mallinckrodt, Inc. v. MediPart, Inc.*, 976 F.2d 700 (Fed. Cir. 1992). In that case, the patentee included a "single use only" restriction on a label affixed to a medical device created to diagnose and treat respiratory ailments. Mallinckrodt sued MediPart for infringing the label license since MediPart sterilized

used devices and sent them back to hospitals for reuse. MediPart argued that the right to bring an infringement suit was exhausted due to the sale of the device. The district court granted summary judgment in MediPart's favor.

The Federal Circuit used the case as a vehicle to limit further the misuse defense.⁸⁴ The Federal Circuit held that patent rights were not exhausted when a patented article was sold with conditions on its use, and that such conditions could be enforced through an infringement suit. *Mallinckrodt*, 976 F.2d. at 706. It also ruled on the merits of a misuse defense based on the resale condition, an issue that was not argued before the district court or the Federal Circuit. The Federal Circuit held that the threshold inquiry for patent misuse purposes is whether the challenged conduct "is reasonable within the patent grant, or whether the patentee has ventured beyond the patent grant and into behavior having an anticompetitive effect not justifiable under the rule of reason." *Id.* at 708. Under the *Mallinckrodt* test, antitrust principles do not come into play unless the conduct is outside the scope of the patent grant. Even if the conduct is beyond the scope of the patent, however, its effects must still be analyzed under the antitrust rule of reason. *Id.*

In effect, the two-pronged test set forth in *Mallinckrodt* created a "scope of the patent" screen for courts to apply before even beginning a competitive effects inquiry. The Federal Circuit appeared to apply the test in this manner in both *Virginia Panel Corp. v. MAC Panel Co.*, 133 F.3d 860 (Fed. Cir. 1997), *cert denied*, 525 U.S. 815 (1998), and in *B. Braun Medical Inc., v. Abbott Laboratories*, 124 F.3d 1419 (Fed. Cir. 1997). In *Virginia Panel*, the Federal Circuit rejected the claim that threats to enforce patents constitute misuse because such conduct falls within the legitimate rights of the patentee. 114 F.3d at 869-70. In *B. Braun*, the Federal Circuit

⁸⁴ . See James B. Kobak, Jr., *Some Thoughts About the CAFC's Mallinckrodt Decision*, 75 J. Patent Trademark Off. Soc'y 550 (1993).

remanded the district court's judgment finding patent misuse for a determination of whether the use restrictions at issue exceeded the scope of the patent grant. 124 F.3d at 1426. Similarly, in *Engel Industries, Inc. v. Lockformer Co.*, 96 F.3d 1398 (Fed. Cir. 1996), the Federal Circuit rejected a claim of misuse based on a license requiring royalty payments predicated on sales of unpatented components that the licensee had the option of purchasing from the patent owner. *Id.* at 1408. The Federal Circuit relied on the facts that the purchase of the unpatented goods was voluntary and that the license was not conditioned on the purchase of the those items. *Id.* at 1408-09. Finally, the court also reasoned that threats to enforce patents do not constitute misuse. *Id.* at 1408.

3. **The Federal Circuit Rarely Ruled in Favor of Parties Asserting Antitrust Claims**

A review of the Federal Circuit cases involving antitrust issues confirms that antitrust claimants did not fare well on appeal. In all but two of the cases before *Nobelpharma*, the Federal Circuit ruled against the party claiming an antitrust violation and/or patent misuse.⁸⁵ Given the Federal Circuit's pronouncements regarding the relationship between patent rights and antitrust law, some might jump to a quick conclusion based on antitrust claimants' dismal

⁸⁵ In *Senza-Gel*, the court affirmed summary judgment in favor of the alleged infringement on the patent misuse defense, but also affirmed the denial of summary judgment on the related antitrust claim. The other decision is *U.S. Phillips v. Windmere Corp.*, 861 F.2d 695 (Fed. Cir. 1988) in which the Federal Circuit reversed the grant of a directed verdict against an antitrust claimant. The Federal Circuit held that the district court took too narrow a view of the evidence in support of the allegation that the patentee willfully maintained its monopoly in the rotary shaver market and found that the antitrust claimant presented sufficient evidence of predatory pricing to preclude a directed verdict on that issue. *Id.* at 703. Again relying on Supreme Court precedent, the Federal Circuit noted that "[e]vidence that a firm holding 90 percent of a market that has substantial entry barriers drastically slashes its prices in response to the competition of a new entrant, for the purpose and with the effect of eliminating that entrant, is sufficient to show monopolization, in violation of section 2 of the Sherman Act." *Id.* at 704 (citing *Aspen Skiing Co. v. Aspen Highlands Skiing Corp.*, 472 U.S. 585, 610-611 (1985); *Am. Tobacco Co. v. United States*, 328 U.S. 781 (1946)). Judge Newman, however, wrote a vigorous dissent, in which Chief Judge Markey joined.

appellate record in the Federal Circuit. It is not clear, however, that the results necessarily reflect hostility to antitrust principles as opposed to the weakness of the antitrust claims in the cases before the court.

Indeed, a review of the Federal Circuit decisions before *Nobelpharma* reveals very few surprises. For the most part, the court's application of antitrust principles, even where there was no guiding regional circuit law, appears to have been consistent with mainstream antitrust law.⁸⁶ There are no cases in which it is clear that a regional circuit would have come to a different result. For example, the Federal Circuit's repeated holdings that inequitable conduct is insufficient to satisfy the elements of a *Walker Process* claim are consistent with the language of the *Walker Process* decision itself, which required "intentional fraud," and with the law of the Ninth Circuit at the time (the law which the Federal Circuit was applying in *Argus Chemical*).

Similarly, there is nothing particularly surprising about the Federal Circuit's other antitrust holdings during this time period: that an antitrust claimant must prove a relevant market to prevail on a Section 2 claim (*American Hoist*), that specific intent requires something more than recklessness or negligence (*American Hoist*), that clear and convincing evidence is necessary to prevail on a bad faith litigation claim (*Loctite*),⁸⁷ that an antitrust claimant who had not been sued by the patentee did not have standing to assert a *Walker Process* claim (*Indium*), that there is nothing inherently unlawful about an exclusive licensing arrangement (*Genentech*), and that there must be some effort at enforcement before a patent can serve as a basis for an antitrust claim

⁸⁶ See Peter M. Boyle, Penelope M. Lister and J. Clayton Everett, Jr., *Antitrust Law At The Federal Circuit: Red Light Or Green Light At The IP-Antitrust Intersection*, 69 *Antitrust L.J.* 739, 741 (2002) (concluding that "the Federal Circuit's holdings in antitrust cases find ample support in mainstream antitrust principles and cannot be characterized as a patent court's efforts to thwart the antitrust laws").

⁸⁷ While the issue in *Loctite* was somewhat different than that in *Handguards* as discussed above, it seems likely that most courts would agree with the Federal Circuit's resolution of it.

(*Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1159 (Fed. Cir. 1996), *overruled on other grounds*, *Nobelpharma AB v. Implant Innovations*, 141 F.3d 1059 (Fed. Cir. 1998) (en banc)).

There are perhaps three possible exceptions to this general observation. First, in *Atari*, the Federal Circuit seemed to use fairly limited language to describe the four situations in which a patentee might violate the antitrust laws. It is not at all clear, however, from the language of the decision that the court meant the list to be exhaustive. Second, in *Nobelpharma I*, the court held that omissions could not provide the basis for a *Walker Process* claim. One can easily imagine the regional circuits coming out differently on that question, as did the Federal Circuit itself (en banc) in *Nobelpharma II*. Finally, the Federal Circuit's patent misuse decisions have significantly raised the hurdle for using antitrust-type principles, through a misuse defense, to limit the manner in which a patent is used, and it is not clear that other courts would necessarily have reached the same result as the Federal Circuit did in *Engle* or would conclude that threats to enforce patent rights could never constitute a misuse.

C. The Federal Circuit's Treatment Of Antitrust Issues after *Nobelpharma*.

Interestingly, the court in *Nobelpharma II* reversed not only its choice of law precedent, but also its conclusion in the case before it that an omission could not form the basis for a *Walker Process* claim. The court explained that "we arrive at this conclusion because a fraudulent omission can be just as reprehensible as a fraudulent misrepresentation." 141 F.3d at 1070. Although the court emphasized the distinction between inequitable conduct and *Walker Process* fraud, it concluded that a reasonable jury could have found that the patentee in that case engaged in fraud sufficient to support a claim under *Walker Process*. *Id.* at 1073.

Since the March 1998 decision by the Federal Circuit in *Nobelpharma*, the court has rendered a number of decisions that flesh out its view of antitrust law, as well as its choice of law

rules. Some of these recent decisions are also among the Federal Circuit's most controversial. In them, the court expanded the issues to which it applied its own law beyond the patent prosecution issues in *Nobelpharma* to antitrust issues involving "predatory" product development, preemption, and refusals to deal.

The Federal Circuit's first post-*Nobelpharma* antitrust decision, *In re FilmTec Corp.*, No. 548, 1998 WL 398431, 155 F.3d 573 (Fed. Cir. 1998) (unpublished), was the court's third opinion in that contentious battle. In that case, the Federal Circuit refused to extend its ruling in *Nobelpharma* to cover jurisdiction as well as choice of law. The appeal arose when FilmTec sought a petition for a writ of mandamus to reverse the district court's denial of a summary judgment motion in Hydranautics' antitrust action against FilmTec (which did not involve any patent claims at all). FilmTec asserted that the Federal Circuit had jurisdiction to decide its mandamus petition, arguing (among other things) that, based on *Nobelpharma*, the Federal Circuit had exclusive jurisdiction to determine whether a patentee "should be stripped of immunity from antitrust laws." The court rejected this argument, explaining that its *Nobelpharma* decision related to choice of law, not jurisdiction.

In *C.R. Bard, Inc. v. M3 Systems, Inc.*, 157 F.3d 1340 (Fed. Cir.), *reh'g en banc den.*, 161 F.3d 1380 (Fed. Cir. 1998), *cert. denied*, 526 U.S. 1130 (1999), the Federal Circuit, among other things, returned to the proof necessary in a *Walker Process* claim. Relying on *Walker Process* and its own precedents, the Federal Circuit emphasized once again the rigorous standard of fraud necessary to prevail on such a claim in contrast to the lesser standard under an inequitable conduct defense.⁸⁸ *Id.* at 1364-65. After reviewing the evidence, the court reversed the jury's verdict that Bard violated the antitrust laws under *Walker Process*, finding that there had been no

⁸⁸ On this same point, see also *In re Spalding Sports Worldwide, Inc.*, 203 F.2d 800, 807 (Fed. Cir. 2000).

fraudulent conduct. The court also considered whether or not the infringement suit was a sham. The court stated that neither an unsuccessful suit, nor enforcing a patent that “falls to invalidity” subjects the patentee to antitrust liability. *Id.* at 1368-69. The court found that the evidence that Bard “knew” its patents were not infringed (which consisted of testimony from one engineer who said that other employees told him one of the relevant patents was not infringed) was insufficient to support a claim of sham litigation.⁸⁹ *Id.* The court also held that this conduct could not support the jury’s finding that Bard had engaged in patent misuse. *Id.* at 1371-73.⁹⁰

The court’s holding on the *Walker Process* claim and its ruling on the sham litigation claim did not represent significant departures from pre-*Nobelpharma* law or mainstream antitrust jurisprudence (although it is significant that the Federal Circuit was willing to review the evidence in such detail in reversing jury verdicts on those claims). However, its ruling on the final basis for the antitrust claims was more controversial, albeit in a manner favoring the antitrust claimant, M3. In addition to its *Walker Process* and sham litigation claims, M3 alleged that Bard attempted to monopolize the relevant market for biopsy needles by modifying its patented biopsy gun for no reason other than to render M3’s needle’s incompatible. A divided panel (per Judge

⁸⁹ See also *Glass Equip. Dev. Inc. v. Besten, Inc.*, 174 F.3d 1337, 1343-44 (Fed. Cir. 1999) (a lawsuit to enforce patent rights is exempt from the antitrust laws unless the patent was obtained by fraud or the lawsuit is a sham).

⁹⁰ The court again expressed a very limited view of the scope of the misuse defense:

M3 Systems did not propose any of the classic grounds of patent misuse, such as tying or enforced package licensing or price restraints or extended royalty terms ..., but generally urged the view that Bard’s actions, even if not illegal, were an improper use of patents. Although the law should not condone wrongful commercial activity, the body of misuse law and precedent need not be enlarged into an open-ended pitfall for patent-supported commerce.

Id. at 1373.

Bryson, joined by Chief Judge Mayer) affirmed the jury's verdict in favor of M3, although it vacated the damage award because it did "not provide clear guidance as to the proper allocation of damages due to the injury suffered by M3 in the injury replacement needle market" (the only injury for which the court allowed recovery on the antitrust claims). *Id.* at 1382. Judges Mayer and Bryson held that the evidence supported the jury's conclusion that Bard had modified its biopsy gun for predatory reasons, "i.e., for the purpose of injuring competitors in the replacement needle market, rather than for improving the operation of the gun." *Id.* at 1382.

Interestingly, on this issue -- which has no necessary connection to patent rights -- the Federal Circuit did not mention the law of the regional circuit (the Seventh). Instead, for the proposition that M3 could base an antitrust claim on a showing that "Bard made a change in its Biopty gun for predatory reasons," the court cited a decision from the Northern District of California. *In re IBM Peripheral EDP Device Antitrust Litig.*, 481 F. Supp. 969, 1002 (N.D. Cal. 1979).

The impact of the *Bard* decision may be limited. As characterized by the majority, the case presented a fairly stark set of facts with respect to Bard's motivation for modifying the gun. In their ruling, for example, Chief Judge Mayer and Judge Bryson relied on specific internal Bard documents showing that the modifications had a detrimental effect on the gun's performance, which they said had not been contradicted. Moreover, in concurring in the decision to deny a rehearing, Judge Gajarsa explained that the precedential value of this decision is limited by virtue of the manner in which the issues were argued on appeal:

Given these facts, the patent bar may, at first glance, be alarmed that the majority opinion opens the floodgates with respect to a new antitrust cause of action. However, it is important for the bar to note that the only argument Bard made on appeal regarding the antitrust violation was directed to the sufficiency of the evidence on this issue. Bard did not argue to this court that

modification of a patented product within the scope of the claims by a patentee cannot, as a matter of law, constitute an antitrust violation. Nor did Bard challenge the jury instructions. See *C.R. Bard*, 157 F.3d at 1382 ("Because Bard did not challenge the court's instructions ... the legal sufficiency of the jury charge on the antitrust issues is not properly before us on appeal.") In light of our limited review of jury findings, the majority affirmed the jury verdict based on its determination that there was substantial evidence to support the verdict. *See id.* at 1383.

Consequently, this case does not establish or endorse a new antitrust theory. The majority opinion turns solely on Bard's argument regarding the sufficiency of the evidence and its failure to challenge the propriety of the jury instructions. The question of whether or not a cause of action premised upon the antitrust laws exists when a patentee redesigns a patented product within the scope of the patent claims, awaits another day.

C.R. Bard, Inc. v. M3 Sys., Inc., 161 F.3d 1380 (Fed. Cir. 1998) (denial of petition for reh'g *en banc*) (Gajarsa, J., with Clevenger, J., concurring) (emphasis added).⁹¹

⁹¹ The issue of antitrust liability predicated on product design was discussed recently by the Court of Appeals for the District of Columbia in *United States v. Microsoft Corp.*, 234 F.3d 34 (D.C. Cir.), *cert. denied*, 122 S.Ct. 350 (2001). There the plaintiffs claimed, *inter alia*, that Microsoft unlawfully maintained a monopoly in the PC operating system market in violation of § 2 of the Sherman Act. In particular, plaintiffs claimed that Microsoft engaged in exclusionary acts to maintain its monopoly, including, *inter alia*, its method of integration of its "Internet Explorer" ("IE") product into its "Windows" product. The D.C. Circuit agreed with the District Court's conclusion that two of the three technological changes Microsoft made to "weld" IE to Windows constituted exclusionary conduct with an anticompetitive effect sufficient to sustain a § 2 monopolization violation. Those changes were (1) excluding IE from the "Add/Remove Programs" utility; and (2) commingling code related to browsing and other code in the same files, so that any attempt to delete the files containing IE would, at the same time, cripple the entire operating system. The court observed that, as a general rule, "courts are properly very skeptical about claims that competition has been harmed by a dominant firm's product design changes" but also stated that design changes are not "per se lawful." *Id.* at 65. The court found that these two innovations had an actionable anticompetitive effect because they significantly reduced the usage of rivals' products. *Id.* at 65-66. It also concluded that Microsoft offered no argument that its conduct achieved any "integrative benefits," and presented no evidence that its conduct served a purpose other than protecting its operating system monopoly. *Id.* Nevertheless, the court of appeals reversed the District Court's determination that the third technological change--causing Windows to override the user's choice of a default browser --violated § 2, because Microsoft presented valid technological reasons for the innovation that Plaintiffs did not attempt to rebut. *Id.* at 67. Thus, the court's discussion of the "purpose" of Microsoft's product designs, while not couched as an analysis of Microsoft's

The Federal Circuit extended its approach to choice of law articulated in *Nobelpharma* in *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356 (Fed. Cir.), *cert. denied*, 528 U.S. 1019 (1999). Overruling prior precedents, the court decided that it would apply its own law to questions of whether federal and state causes of action were preempted by patent law. The court reiterated that its choice of law rules were designed to further the goal of promoting “uniformity in the law with regard to subject matter within [its] exclusive appellate jurisdiction.” *Id.* at 1359. The court reasoned that “cases such as *Pro-Mold* and *Nobelpharma* make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law.” *Id.* at 1360; *see Pro-Mold and Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574 (Fed. Cir. 1996) (applying Federal Circuit precedent in deciding whether alleged inequitable conduct in prosecution of patent application constitutes unfair competition because the question “clearly does impact our exclusive jurisdiction”); *see also Zenith Elec. Corp. v. Exzec, Inc.*, 182 F.3d 1340, 1351-56 (Fed. Cir. 1999) (applying Federal Circuit law in holding that Lanham Act and state tort law claims based on patentee’s statements that a rival’s product infringed the relevant patents were not preempted by patent laws or antitrust laws but that the rival must prove that statements were made in bad faith).⁹²

“motivation” in implementing the design changes, focused upon Microsoft’s technological justifications (or lack thereof) in assessing Plaintiffs’ monopolization claim. The court’s findings at least confirm that there are certain product innovations that are not immune to antitrust challenges. *See also Caldera, Inc. v. Microsoft Corp.*, 72 F.Supp. 2d 1295, 1312-13 (D. Utah 1999) (rejecting argument that an antitrust plaintiff must prove that an allegedly predatory design change had no purpose other than to restrain competition and citing with favor a standard requiring that plaintiffs merely show that “the design choice is unreasonably restrictive of competition”).

⁹² The holding in *Zenith Electronics* is consistent with *Dow Chemical Co. v. Exxon Corp.*, 139 F.3d 1470 (Fed. Cir. 1998), *cert. denied*, 525 U.S. 1138 (1999) and *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318 (Fed. Cir. 1998), *overruled in part by Midwest Indus. Inc.*, 175 F.3d at 1356, in which the court held that state law claims of

Two of the Federal Circuit's recent antitrust decisions -- *Intergraph Corp. v. Intel Corp.*, 195 F.3d 1346 (Fed. Cir. 1999), and *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000)⁹³ -- are also two of its most controversial. Both of these cases involved, albeit in different ways, a patentee's right to deny rivals access to its intellectual property. Some have argued that the Federal Circuit went too far in limiting the role of antitrust principles in governing the use of patents.⁹⁴ On the other hand, others have argued that in neither case did the Federal Circuit go beyond Congress' admonition in 35 U.S.C. §271(d)(4) that a patent holder cannot be deemed guilty of misuse *or* an illegal extension of the patent simply by virtue of refusing to license.⁹⁵ Moreover, it is not clear that either case would have come out any differently if the court had been applying its pre-*Nobelpharma* rule of looking to the law of the regional circuits.

unfair competition or tortious interference based on publicizing or asserting its patents in the marketplace are not preempted by patent law so long as the patentee is alleged to have acted in bad faith. One district court, however, has expressed disagreement with it and with the Federal Circuit's conclusion that it has exclusive jurisdiction. *Spotless Enters. Inc. v. Carlisle Plastics, Inc.*, 56 F. Supp.2d 274 (E.D.N.Y. 1999).

⁹³ The full citation to the *Xerox* case is *In re Indep. Serv. Orgs. Antitrust Litig*, 203 F.3d 1322 (Fed. Cir. 2000).

⁹⁴ *E.g.*, *Challenges of the New Economy: Issues at the Intersection of Antitrust and Intellectual Property*, remarks at the American Antitrust Institute's Conference: An Agenda for Antitrust in the 21st Century (June 15, 2000) <<http://www.ftc.gov/speeches/pitofsky/000615speech.htm>>; *see also, e.g.*, Katz & Safer, *supra* note 49, at 687 ("A potential and unintended effect of the creation of the Federal Circuit is that the delicate balance maintained for many years between intellectual property law and antitrust law may have been tipped decisively in favor of intellectual property"), Kathryn Lutton & Richard Lutton, *At the Intersection of Antitrust and Intellectual Property: Lessons from Integraph v. Intel and CSX v. Xerox*, 10 Fed. Circuit B.J. 129, (2000) (noting controversy).

⁹⁵ *E.g.*, Melvin A. Schwarz, *Balancing IP Rights and Competition: The Search for a Coherent Policy Continues*, *Global Competition Rev.* (Apr./May 2001); Jonathan Gleklen, *Antitrust Liability for Unilateral Refusals to License Intellectual Property: Xerox and Its Critics*, *Antitrust and Intellectual Property* (ABA Antitrust Law Sec.), Spr. 2001, at 11, 16-18.

In *Intergraph*, Intel had designated Intergraph, which made computer work stations, as a "strategic customer" and provided Intergraph with various benefits, including materials and patented products. In 1997, Intergraph sued Intel for infringement of patents covering an Intergraph microprocessor, the "Clipper microprocessor." Intel stopped providing Intergraph with what Intel characterized as the "special" benefits. The district court granted Intergraph's motion for a preliminary injunction, prohibiting Intel from cutting off the special benefits.

The Federal Circuit rejected each of the six theories on which the district court had relied (essential facilities and refusals to deal; leveraging and tying; coercive reciprocity; conspiracy; improper use of intellectual property; and retaliatory enforcement of non-disclosure agreements). Two conclusions were central to the Federal Circuit's rulings: (1) that Intel and Intergraph did not compete in any relevant market and, thus, Intel did not engage in conduct that had the requisite effects on competition in any market in which the two companies operated,⁹⁶ and (2) that Intel had the right to refuse to grant Intergraph access to its intellectual property and proprietary information. *See e.g.*, 195 F.2d at 1352-56, 1358-59, 1360-62.

With respect to the access to intellectual property, the Federal Circuit rejected the district court's reading of the Ninth Circuit's decision in *Image Technical Services Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997), *cert. denied*, 423 U.S. 1094 (1998), as standing for the idea that a refusal to license intellectual property can be unlawful exclusionary conduct. *Id.* at 1362. Instead, the Federal Circuit emphasized the Ninth Circuit's observation that it had found "no reported case in which a court had imposed antitrust liability for a unilateral refusal to sell or

⁹⁶ For example, Intergraph alleged that Intel had monopoly power in two microprocessor markets but also alleged that the effect of Intel's conduct was felt in the separate markets for computer work stations and graphics subsystems, in which there was no evidence that Intel really competed let alone had market power of any sort. One district court has noted that the Federal Circuit apparently ignored the concept of technology markets articulated in the FTC's Antitrust Guidelines for the Licensing of Intellectual Property.

license a patent or copyright.” *Id.* The Federal Circuit also cited other authority from the Second, Sixth and Ninth Circuits, as well as the *Antitrust Guidelines for the Licensing of Intellectual Property* (1995), for the proposition that the antitrust laws do not impose an obligation to license the use of intellectual property to others. *Id.* at 1362-63.

Although the Federal Circuit was relatively dismissive of Intergraph’s claims, it is interesting to note that the Federal Trade Commission found sufficient grounds to file a complaint against Intel based on similar facts (and additional facts involving other computer manufacturers). See *In the Matter of Intel Corporation*, Docket No. 9288. Intel and the Commission settled that action.

In *CSU v. Xerox*, 203 F.3d 1322 (Fed. Cir. 2000), the Federal Circuit considered directly the antitrust consequences of an alleged monopolist’s refusal to license intellectual property to a rival. In that case, CSU, an independent service organization, filed suit alleging that Xerox violated the Sherman Act by refusing to sell copier parts to CSU and by refusing to provide other materials, including software and copyrighted manuals. Xerox counterclaimed for patent and copyright infringement. The District Court for the District of Kansas entered summary judgment for Xerox on the antitrust claims.

With respect to choice of law, the Federal Circuit applied its law in reviewing the district court's grant of summary judgment on CSU's antitrust claims arising from the refusal to sell patented parts, but applied Tenth Circuit law in reviewing the antitrust claims based on Xerox's refusal to sell or license its copyrighted manuals and software. The court’s application of Federal Circuit law to an antitrust claim based on the refusal to license went beyond *Nobelpharma*, in which the court stated its intention to develop a body of law relating to antitrust claims based on

the prosecution and enforcement of patents.⁹⁷ The Federal Circuit's opinion does not appear to acknowledge this extension of *Nobelpharma* and the court's explanation of the grounds for its application of Federal Circuit law to the refusal to license issues in *CSU* is conclusory:

We apply our own law, not regional circuit law, to resolve issues that clearly involve our exclusive jurisdiction. See *Pro-Mold & Tool Co. v. Great Lakes Plastics, Inc.*, 75 F.3d 1568, 1574-75, 37 USPQ2d 1626, 1631 (Fed.Cir.1996). "Whether conduct in procuring or enforcing a patent is sufficient to strip a patentee of its immunity from the antitrust laws is to be decided as a question of Federal Circuit law." *Nobelpharma*, 141 F.3d at 1068, 46 USPQ2d at 1104; see *Midwest Indus., Inc. v. Karavan Trailers, Inc.*, 175 F.3d 1356, 1360, 50 USPQ2d 1672, 1676 (Fed.Cir.1999) (en banc in relevant part) ("Pro-Mold and Nobelpharma make clear that our responsibility as the tribunal having sole appellate responsibility for the development of patent law requires that we do more than simply apply our law to questions of substantive patent law. In order to fulfill our obligation of promoting uniformity in the field of patent law, it is equally important to apply our construction of patent law to the questions whether and to what extent patent law preempts or conflicts with other causes of action."). The district court's grant of summary judgment as to *CSU*'s antitrust claims arising from Xerox's refusal to sell its patented parts is therefore reviewed as a matter of Federal Circuit law, while consideration of the antitrust claim based on Xerox's refusal to sell or license its copyrighted manuals and software is under Tenth Circuit law.

As to the merits of the antitrust claim, the court held that absent exceptional circumstances, a patent confers the right to exclude competition altogether in more than one antitrust market. Rather than attempting to harmonize its decision with the Ninth Circuit's *Kodak* decision, as it had done in *Intel*, the Federal Circuit specifically disavowed *Kodak*, stating that the Ninth Circuit's "logic requires an evaluation of the patentee's subjective motivation for refusing to sell or license its patented products for pretext. We decline to follow [*Kodak*]." *Id.* at 1326. The court went on to state that "[w]e see no more reason to inquire into the subjective motivation of Xerox in refusing to sell or license its patented works than we found in evaluating the subjective motivation of a patentee in bringing suit to enforce that same right." *Id.* " Because it

⁹⁷ The court also arguably applied its own, as opposed to regional circuit law, to issues in *Bard* and *Intel* that did not involve the procurement or enforcement of patents. Those cases, however, contain no analysis or discussion of the choice of law issue.

concluded that Xerox's refusal to sell patented parts did not exceed the scope of the patent grant, the court held that "our inquiry is at an end." *Id.* at 1328.

The Federal Circuit expressed its view that the patentee's right to exclude is not without limits. *Id.* at 1326. However, it then went on to define only three circumstances in which a refusal to license a rival might result in antitrust liability: illegal tying, fraud in the Patent and Trademark Office or sham litigation. *Id.* at 1327. In broad language, the court proclaimed that:

In the absence of any indication of illegal tying, fraud in the Patent and Trademark Office, or sham litigation, the patent holder may enforce the statutory right to exclude others from making, using, or selling the claimed invention free from liability under the antitrust laws.

Id. This aspect of its decision has generated a good deal of controversy.

As for the copyright claim, the Federal Circuit, purporting to base its decision on how the Tenth Circuit would view the issue, concluded that it would follow the First Circuit's holding in *Data General*. In that case, the First Circuit refused to examine Data General's subjective motivation in asserting its right to exclude in the absence of any evidence that the relevant copyrights were obtained by unlawful means or were used to gain monopoly power beyond the statutory copyright granted by Congress. Thus, it affirmed the district court's grant of summary judgment. The court's treatment of the copyright claim supports the proposition that, regardless of whether the Federal Circuit applied its own law or that of the regional circuit (the Tenth Circuit) on the antitrust claims, the result likely would have been the same in *CSU*.

The same, of course, would not necessarily be true if *CSU* had been appealed from a court within a different circuit, e.g. the Ninth Circuit. If that were the case, the Federal Circuit's decision to apply its own law to the patent-antitrust issues might well lead to an entirely different outcome as compared to the result if Ninth Circuit law were applied. The analysis becomes even more complicated when one considers the antitrust claims based on the refusal to license

copyrights if *CSU* were appealed from a court in the Ninth Circuit. In that situation, the Federal Circuit would have been forced to apply Ninth Circuit law, in light of *Kodak*, to the copyright-based antitrust claims and its own law to the patent-based antitrust claims. It is not too hard to imagine a set of circumstances in which the Federal Circuit could come to a different result when analyzing the antitrust consequences of a defendant's refusal to license a patent (applying its own law) and a defendant's refusal to license a copyright (applying the law of the regional circuit).

In *CSU*, the Federal Circuit only had jurisdiction because Xerox filed a patent counterclaim. Given that the holding in *Holmes* is likely to mean that regional circuits will be addressing patent claims to a greater degree than before, the question arises whether other circuits will feel bound to follow Federal Circuit precedent on an issue such as the duty to license. It should also be observed that the context of *CSU* was somewhat unusual in that no issue of whether the patents were infringed was presented. This issue would often be hotly contested both in the district court and on appeal, and this circumstance might affect appellate jurisdiction.

As noted above, many have pointed to the Federal Circuit's decision in the *CSU* case as an example of the court's hostility to antitrust principles, particularly as compared to the Ninth Circuit's decision in *Image Technical Services, Inc. v. Eastman Kodak Co.*, 125 F.3d 1195 (9th Cir. 1997). One of the most vocal critics of the Federal Circuit's decision has been former FTC Chairman Pitofsky.⁹⁸ Chairman Pitofsky expressed concern that, applied broadly, the Federal Circuit's dicta in *Xerox* could be applied to legitimize other types of conduct that courts (including the Supreme Court) have previously condemned. Specifically, he questioned whether, under *CSU*, a patent holder would be allowed (1) to refuse to sell or license except on condition that the purchaser/licensee not deal with a potential competitor; (2) to terminate a licensee

⁹⁸ E.g., Pitofsky remarks, *supra* note 94; see also, e.g., Katz and Safer, *supra* note 49, at 705-08 (arguing that *CSU* is contrary to other judicial and administrative authorities).

because it was a price cutter where the termination was motivated by anticipation of what other licensees wanted; (3) to refuse to license a rival as the result of a patent pooling arrangement in which participants retain veto power over licensees; and (4) to refuse to license rivals under a patent necessary to meet an industry standard when the patent holder had failed to disclose the existence of the patent when asked by the standard setting body. Chairman Pitofsky opined that *Xerox* was among recent decisions that have upset the “traditional balance” between antitrust principles and intellectual property rights.

With respect to Chairman Pitofsky’s specific examples, it has been argued that the conduct he pointed to would be condemned even under the *CSU* standard either because it is a form of tying (example 1), it is collusive (example 3) or it involves conduct falling outside of the scope of the patent (example 4).⁹⁹ Moreover, the court’s decision in *CSU* arguably is within the mainstream of antitrust law.¹⁰⁰ Indeed, a number of appellate courts, including the Ninth Circuit before *Kodak*, have held that a refusal to license intellectual property, without more, cannot as a matter of law form the basis for an antitrust violation.¹⁰¹ Even the Ninth Circuit in *Kodak*

⁹⁹ Schwarz, *supra* note 95; Jonathan Gleklen, *supra* note 95 at 16-18. Moreover, one would argue that example 2, which involves unilateral termination of a licensee, would not give rise to antitrust liability under the principles of *Monsanto v. Spray-Rite Serv. Corp.*, 465 U.S. 752 (1984).

¹⁰⁰ Boyle, Lister & Everett, *supra* note 86, at 747 (concluding that the holding in *CSU* “finds support in orthodox antitrust principles” but noting that the court’s reasoning is murky and its support thin on critical points).

¹⁰¹ See *Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1160 (Fed. Cir. 1996) (patentee “under no obligation to license”); *Service & Training, Inc. v. Data Gen. Corp.*, 963 F.2d 680, 686 (4th Cir. 1992) (applying a rebuttable presumption and finding that Data General had no duty to license diagnostic software to an independent service organization); *Miller Instuform v. Insituform of N. Am.*, 830 F.2d 606, 609 (6th Cir. 1987) (refusing to license cannot be a § 2 violation); *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1209 (2d Cir. 1981) (liability for refusal to license would “severely trample upon the incentives provided by our patent laws”); *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 647 (9th Cir. 1981) (“right to ... refuse to license at all, is ‘the untrammelled right’ of the patentee”); *W.L. Gore & Assocs. v. Carlisle Corp.*, 529 F.2d 614, 623 (3d Cir. 1976) (“right to refuse to license is the essence of the patent holder's right”).

acknowledged that it could find no case in which an antitrust violation had been based simply on the refusal to license a patent. *Kodak*, 125 F.3d at 1195.

Moreover, in refusing to allow antitrust liability to be based on a refusal to license, some have argued that the Federal Circuit was going no farther than Congress in 35 U.S.C. § 271(d)(4), which provides that “[n]o patent owner otherwise entitled to relief for infringement or contributory infringement shall be denied relief or deemed guilty of misuse *or illegal extension of the patent right* by reason of his having ... refused to license or use any rights to the patent.” Some courts, including the Ninth Circuit, have held that § 271(d)(4) only applies in the context of a patent misuse defense and does not bar antitrust claims based on a refusal to license. *See Kodak*, 125 F.2d at 1214 n. 7; *see also Grid Sys. Inc. v. Texas Instr. Inc.*, 771 F. Supp. 1033, 1037 (N.D. Cal. 1991). Others, however, have held that such a narrow interpretation of § 271(d)(4) is inconsistent with the plain language of the statute, which prohibits not only a misuse defense but any finding that the patent owner has illegally extended its patent right based solely on a refusal to license. *In re Indep. Servs. Orgs. Antitrust Litig.*, 989 F. Supp. 1131 (D. Kan. 1997) (holding that the Ninth Circuit’s limited interpretation of 271(d)(4) “is contrary to the statutory language and legislative history of the amendment”); *see also* III Areeda & Hovenkamp, *Antitrust Law*, ¶ 709(b) at 220 (2d ed. 2002) (“To interpret the highly general and older language of the Sherman or Clayton Acts inconsistently with the highly specific and newer language of the Patent Act would frustrate Congress's intentions to protect the refusal to license.”)

Nevertheless, there is a risk that the court’s opinion in *CSU* -- particularly when combined with its dictum that appears to elevate the importance of patent rights over antitrust principles -- might be applied too broadly by district courts. One such example, as pointed out by Chairman Pitofsky, is *Townshend v. Rockwell Int’l Corp.*, 2000-1 Trade Cases ¶ 72,890 (N.D. Cal. 2000), a case in which the district court applied *CSU* to preclude any inquiry into conditions

imposed on patent licensees. Those conditions included a requirement that, if competitors wanted to license patents covering an industry standard (which was allegedly obtained by fraud on the trade association), they would have to license their technology to the licensor (a reciprocal dealing requirement).

Relying on the Federal Circuit's decision in *CSU*, the *Townsend* court concluded that because "a patent owner has the right to refuse to license his or her patents on any terms, the existence of a predicate condition to a license agreement cannot state an antitrust violation." Stated in that way, the holding in *Townsend* appears to be an overly expansive reading of *CSU*. Indeed, the Federal Circuit in *CSU* did not absolve any "predicate condition" to a license from potential antitrust scrutiny or state (even in dicta) that a patent owner has the right to refuse to license "on any terms." To the contrary, the Federal Circuit itself recognized the principle that "[t]he patentee's right to exclude, however, is not without limit." 203 F.3d at 1325.

In any event, noting that the *Townsend* court may have misapplied *CSU* does not change the fact that it directly relied on the Federal Circuit's opinion for its holding. Thus, whether or not the actual holding in *CSU* is sufficiently expansive to create a broad grant of immunity for patent owners' licensing activities, the dicta in *CSU* may be susceptible to potential misinterpretation by lower courts.

Conclusion

Regardless of which side one takes in the debate over the court's holdings in *Intel* and *CSU* and the implications of those and other Federal Circuit decisions, a few things can be noted from a review of the case law discussed above: (1) the Federal Circuit has already played an important role in the development of patent-antitrust law; (2) the significance of the court's role in this area has increased dramatically in the last few years; and (3) that increase has been a

combined result of the widening scope of the Federal Circuit's jurisdiction and its decision to develop a body of Federal Circuit law on (an increasing) number of patent-antitrust issues.

Whether the court's role in this area will continue to expand depends in large part on the developing law with respect to the scope of its jurisdiction. The more patent-antitrust issues that are subject to review by the Federal Circuit, the fewer opportunities that regional circuits will have to make law on these issues. It is too early to tell how the Supreme Court's decision in the *Holmes* case will affect the number of antitrust issues considered by the Federal Circuit. Even if *Holmes* has a significant impact in that regard, however, it is likely that the court will continue to play an important role in future development of the law at the antitrust-intellectual property interface.

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